

# **EXHIBIT A**

A.A.P.L. FORM 610-1982  
MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

June 1, 2013

OPERATOR CENTURY EXPLORATION HOUSTON, LLC

CONTRACT AREA Tweety Bird Prospect

(See Exhibit "A-1" for a plat of the Contract Area and Exhibit "A-2" for a Description of the Contract Area, both exhibits of which are attached hereto and made a part hereof.)

COUNTY OR PARISH OF Hardin STATE OF Texas

A.A.P.L. FORM 610 – MODEL FORM OPERATING AGREEMENT - 1982

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**OPERATING AGREEMENT**

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THIS AGREEMENT, entered into by and between Century Exploration Houston, LLC 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.

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.

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

- 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.~~

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

- B. Exhibit "A-1", Plat of Contract Area
- B.1. Exhibit "A-2", Description of Contract Area
- B.1. Exhibit "A-3", Leases Subject to this Operating Agreement

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**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 ~~twenty five percent (25%)~~ which shall be borne as hereinafter set forth and other lease burdens as described on Exhibit "A".

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 stipulated hereinabove 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, included 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 of the 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

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

6 Operator  
 7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection  
 8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling  
 9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling  
 10 orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

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 12 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  
 13 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 par-  
 14 ticipate in the drilling of the well.

16 **B. Loss of Title:**

18 ~~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  
 19 reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days  
 20 from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-  
 21 tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining 22  
 — oil and gas leases and interests; and,~~

23 ~~(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  
 24 entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,  
 25 but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

26 ~~(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has  
 27 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  
 28 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  
 29 Area by the amount of the interest lost;~~

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

34 ~~(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  
 35 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  
 36 who bore the costs which are so refunded;~~

37 ~~(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  
 38 borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,~~

39 ~~(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest  
 40 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  
 41 connection therewith.~~

43 ~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well  
 44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,  
 45 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the  
 46 required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make  
 47 proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis,  
 48 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  
 49 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  
 50 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  
 51 gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account  
 52 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  
 53 previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

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

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

60 ~~(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  
 61 lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~

62 All of title  
 63 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  
 64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
 65 the Contract Area.

**ARTICLE V.  
OPERATOR**

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

Century Exploration Houston, LLC 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 <sup>one (1)</sup> ~~written~~ 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)~~ <sup>thirty (30)</sup> 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~~ <sup>one (1)</sup> 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.

**DRILLING AND DEVELOPMENT**

**A. Initial Well:** During the term of this agreement, as set forth in Article XIII hereof, or within one hundred fifty (150) days of a non-proposing party's receipt of a proposal to drill the Initial Well (as set forth herein), whichever is the earlier, ~~On or before the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, Operator shall commence the drilling of a well for oil and gas at the following location:~~ at a location within the Contract Area to a true vertical depth of 13,000 feet (subsea), or a depth sufficient to test and evaluate the Cook Mountain 3 sands,

whichever is the lesser depth, 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.

ARTICLE VI

continued

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

6 **B. Subsequent Operations:**

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8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area ~~other than the well provided~~ <sup>recomplete</sup>  
9 ~~for in Article VI.A.~~, or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all <sup>recomplete,</sup>  
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective  
12 formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the  
13 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  
14 a drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period  
15 shall be limited to forty-eight (48) hours, ~~exclusive~~ <sup>inclusive</sup> of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to  
16 reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any  
17 notice or response given by telephone shall be promptly confirmed in writing.  
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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice  
22 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  
23 location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of  
24 all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other  
25 parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary  
26 to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to  
27 complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of  
28 Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically  
29 permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to  
30 the other parties in accordance with the provisions hereof as if no prior proposal had been made.  
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34 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)  
35 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  
36 the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the  
37 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  
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. \* Operator shall perform  
39 all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if  
40 Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such  
41 proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform  
42 such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all  
43 terms and conditions of this agreement.  
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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable  
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as  
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours  
50 ~~(exclusive~~ <sup>inclusive</sup> of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit  
51 participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and  
52 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  
53 for such a response shall not exceed a total of forty-eight (48) hours ~~(inclusive~~ <sup>inclusive</sup> of Saturday, Sunday and legal holidays). The proposing  
54 party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such  
55 decision.  
56  
57

58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have  
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such  
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting  
61 Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface  
62 location at their sole cost, risk and expense. \*\*If any well drilled, reworked, deepened or plugged back under the provisions of this Article  
63 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  
64 sole cost and risk, <sup>recompleted,</sup>

65 \* Provided, however, such commencement may be extended upon written notice of same by Operator to the other parties  
66 for a period of up to sixty (60) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to  
67 obtain permits from governmental authorities, surface rights (including right-of-way) or appropriate drilling equipment or to  
68 complete title examination or curative required for title approval or acceptance.

69 \*\* provided however, that those Non-Consenting Parties that participated in the drilling, reworking, re-entering, deepening  
70 or sidetracking of the well shall remain liable for, shall pay its proportionate share of the costs of the plugging and abandonment of  
the well and the restoration of the surface only insofar as those costs were not increased by the subsequent operations of the  
Consenting Parties.



ARTICLE VI

continued

1 and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this 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:

11 200% (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%~~ <sup>200%</sup> 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

20 recompletion, (b) ~~500%~~ of that portion of the costs and expenses of drilling, reworking, ~~deepening~~, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and ~~500%~~ 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.

26 five 500% 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 the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties ~~one hundred percent (100%)~~ <sup>five</sup> 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 such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well. \* or recompleting

36 Anything to the contrary notwithstanding, an election to go non-consent in a proposed operation other than drilling will serve to preclude participation by the Non-Consenting Party in all subsequent operations (including those to test and complete the well) in the formation involved in the original non-consent election. The intent being that any non-consent election by any Party hereto to any\*\*

39 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 by Article III.D.

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

51 quarter 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~~ <sup>quarter</sup> 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~~ <sup>quarter</sup>. 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 total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party. recompleting,

66 \*\* proposed operation other than drilling in a particular formation will result in that Non-Consenting Party's non-participation in all operations in or production from such formation as defined in the AFE submitted for approval with the original proposal. However, an election to go non-consent in a proposed operation other than drilling shall not serve to preclude participation by the Non-Consenting Party in any subsequent operation to test and complete the well in any other formation as to which such party has elected to participate or to deepen a well in which Non-Consenting Party either participated in drilling or non-consented drilling but which penalty has been recouped, if applicable.

**ARTICLE VI**

**continued**

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

7  
 8  
 9  
 10 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall  
 11 be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing.

12  
 13  
 14  
 15 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.  
 16 except (a) as to Article VII.D.I. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well  
 17 after it 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  
 18 production, ceases to produce in paying quantities.  
 19  
 20  
 21  
 22

23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been  
 24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a  
 25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening  
 26 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted,  
 27 whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the  
 28 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  
 29 subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in  
 30 the proportion of each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all  
 31 Consenting Parties.  
 32  
 33  
 34

35 4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall  
 36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole  
 37 location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other  
 38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in  
 39 the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share  
 40 (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:  
 41  
 42  
 43

44 (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in  
 45 the initial drilling of the well down to the depth at which the sidetracking operation is initiated.  
 46  
 47  
 48

49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's  
 50 salvable materials and equipment down to the depth at which the sidetracking operation is initiated,\* determined in accordance with the  
 51 provisions of Exhibit "C". less the estimated cost of salvaging and the estimated cost of plugging and abandoning.  
 52  
 53  
 54

55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period  
 56 shall be limited to forty-eight (48) hours, ~~exclusive~~ <sup>inclusive</sup> of Saturday, Sunday and legal holidays; provided, however, any party may request  
 57 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-  
 58 by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the  
 59 notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion  
 60 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  
 61 all other instances the response period to a proposal for sidetracking shall be limited to ~~thirty (30)~~ <sup>fifteen (15)</sup> days.  
 62  
 63  
 64

65 **C. TAKING PRODUCTION IN KIND:**

66 Each party shall <sup>have the right but not the obligation to</sup> take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,  
 67 exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for  
 68 marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by  
 69 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  
 70

ARTICLE VI

continued

1 be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

2  
3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from  
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for  
5 its share of all production.

6 and/or gas  
7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share  
8 of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not  
9 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  
10 ~~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  
11 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  
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of  
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess  
14 of one (1) year. ~~same terms received by Operator for its share of~~ and/or gas

15  
16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines  
17 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  
18 sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas  
19 balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

20  
21 **D. Access to Contract Area and Information:**

22 consenting  
23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,  
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books  
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with  
26 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first  
27 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  
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-  
29 quests the information.

30  
31 **E. Abandonment of Wells:**

32  
33 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been  
34 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  
35 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply  
36 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and  
37 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and  
38 abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of  
39 drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well  
40 and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

41  
42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted  
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a  
44 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within  
46 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,  
47 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  
48 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of  
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign  
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and  
51 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 in-  
52 tervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and  
53 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 in-  
54 tervals 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 pro-  
55 duced from the interval or intervals of the formation or formations covered thereby.

**ARTICLE VI**

continued

1 **"B"**. The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the  
 2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in  
 3 the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no  
 4 readjustment of interests in the remaining portion of the Contract Area.

5  
 6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from  
 7 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  
 8 request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-  
 9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the  
 10 assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the  
 11 option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject  
 12 to the provisions hereof. Failure of a party to respond within the thirty (30) day period stipulated above shall be deemed to be an  
 13 election by that party to participate in the proposed abandonment.

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

19  
 20 **ARTICLE VII.**  
 21 **EXPENDITURES AND LIABILITY OF PARTIES**

22  
 23 **A. Liability of Parties:**

24  
 25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and  
 26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted  
 27 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  
 28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

29  
 30 **B. Liens and Payment Defaults:**

31 Each <sup>↑ Party</sup> Non-Operator grants to <sup>↑ the other Parties</sup> Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share  
 32 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest  
 33 thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of  
 34 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  
 35 obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien  
 36 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share  
 37 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from  
 38 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  
 39 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien  
 40 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

41  
 42  
 43 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,  
 44 the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest  
 45 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  
 46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

47  
 48 **C. Payments and Accounting:**

49  
 50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development  
 51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-  
 52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,  
 53 showing expenses incurred and charges and credits made and received.

54  
 55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties <sup>↑ 30 day period</sup> payment in advance  
 56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next ~~succeeding~~  
 57 ~~month~~, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense,  
 58 together with an invoice for its share thereof. ~~Each such statement and invoice for the payment in advance of estimated expense shall be~~  
 59 ~~submitted on or before the 20th day of the next preceding month.~~ Each party shall pay to Operator its proportionate share of such  
 60 estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within  
 61 said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between  
 62 advances and actual expenses to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no  
 63 more. <sup>↑</sup> provisions of Article XV.O. will apply.

64 **D. Limitation of Expenditures:**

65  
 66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened  
 67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include,

ARTICLE VII

continued

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

3 inclusive twenty-four (24)  
4 X Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its  
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate  
6 notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have ~~forty-~~  
7 ~~eight (48) hours (exclusive of Saturday, Sunday and legal holidays)~~ in which to elect to participate in the setting of casing and the  
8 completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of  
9 such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period  
10 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  
11 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,  
12 deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations  
13 thereafter conducted by less than all parties. , recompleting

14  
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or  
16 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  
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary  
18 tankage and/or surface facilities.

19  
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated  
21 to require an expenditure in excess of Fifty thousand and no/100 Dollars (\$ 50,000.00 )  
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been  
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden  
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required  
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other  
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting  
27 an information copy thereof for any single project costing in excess of Twenty Thousand  
28 Dollars (\$ 20,000.00 ) but less than the amount first set forth above in this paragraph.

29  
30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31 Operator and billed to the Joint Account.  
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the  
33 ~~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 con-  
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on  
35 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  
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-  
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-  
38 visions of Article ~~IV.B.2.~~ IV.B.3 and there shall be no monetary liability against Operator for failing to make any payment herein  
39 except for gross negligence and/or willful misconduct.

40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production  
41 of a producing gas well, ~~at least five (5) days (excluding Saturday, Sunday and legal holidays),~~ or at the earliest opportunity permitted  
42 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  
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment  
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45  
46 **F. Taxes:**

47  
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property  
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they  
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not  
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-  
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-  
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or  
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-  
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then  
56 notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance  
57 with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all  
58 tax payments in the manner provided in Exhibit "C".

59  
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner  
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-  
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and  
63 any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the  
64 joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid  
65 by them, as provided in Exhibit "C".

66  
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect  
68 to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

ARTICLE VII

continued

1 **G. Insurance:**

2  
3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of  
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-  
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall  
6 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  
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation  
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.  
9

10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the  
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.  
12

13 **ARTICLE VIII.**  
14 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

15  
16 **A. Surrender of Leases:**

17  
18 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole  
19 or in part unless all parties consent thereto.  
20

21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not  
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in  
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production  
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-  
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering  
26 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,  
27 such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from  
28 all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any  
29 well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and  
30 production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to  
31 the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or  
32 leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost  
33 of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the  
34 interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.  
35

36 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering  
37 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage  
38 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this  
39 agreement.  
40

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

42  
43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and  
44 shall have the right for a period of <sup>fifteen (15)</sup> ~~thirty (30)~~ days following receipt of such notice in which to elect to participate in the ownership of  
45 the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several  
46 proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in  
47 proportion to the interests held at that time by the parties in the Contract Area.  
48

49 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  
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area  
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.  
53

54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein  
55 by the acquiring party.  
56

57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease  
58 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  
59 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  
60 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  
61 subject to the provisions of this agreement.  
62

63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.  
64

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

66  
67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other  
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be  
69 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 con-  
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

**ARTICLE VIII**

continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent  
 2 possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash  
 3 contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be  
 4 applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5  
 6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such  
 7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8  
 9 **D. Maintenance of Uniform Interest:**

10  
 11 ~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no~~ No  
 12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in  
 13 wells, equipment and production unless such disposition covers either:

- 14  
 15 1.) the entire interest of the party in all leases and equipment and production; or  
 16  
 17 2.) an equal undivided interest in all leases and equipment and production in the Contract Area.

18  
 19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement  
 20 and shall be made without prejudice to the right of the other parties.

21  
 22 If, at any time the interest of any party is divided among and owned by ~~four~~ <sup>two</sup> or more co-owners, Operator, at its discretion, may  
 23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings  
 24 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  
 25 such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to  
 26 enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the  
 27 Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

28  
 29 **E. Waiver of Rights to Partition:**

30  
 31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
 32 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  
 33 undivided interest therein.

34  
 35 ~~**F. Preferential Right to Purchase:**~~

36  
 37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
 38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include~~  
 39 ~~the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other~~  
 40 ~~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~~  
 41 ~~purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the~~  
 42 ~~purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all~~  
 43 ~~purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its~~  
 44 ~~interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a~~  
 45 ~~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~~  
 46 ~~stock.~~

47 **ARTICLE IX.**  
 48 **INTERNAL REVENUE CODE ELECTION**

49  
 50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
 51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
 52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
 53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
 54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954\*, as per-  
 55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to  
 56 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  
 57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
 58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further  
 59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the  
 60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any  
 61 other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the  
 62 Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K",  
 63 Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954\*, under which an election similar to that provided by Section 761 of the  
 64 Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the  
 65 foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined  
 66 without the computation of partnership taxable income.

67  
 68  
 69  
 70 \* as revised by the Internal Revenue Code of 1986 or any more recent revision.

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**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 Thousand Dollars (\$20,000.00) 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. All claims or lawsuits involving title to any interest subject to this agreement shall be treated as a claim or suit against all parties hereto.

**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 force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all 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 between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses 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 or telecopier. 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. Any notices and/or responses may be made by telephone but must be confirmed in writing consistent with the other provisions hereof.

**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.

X 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 90 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 90 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. Any obligation to abandon, restore and remediate the Contract Area will survive termination of this Agreement. The parties hereto shall make a reasonable effort to complete prior to termination of this Agreement, all obligations to abandon, restore and remediate the Contract Area.



**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 Contract Area is located. If the Contract Area is in two or more states, the law of the state of Texas 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 or other 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**

Notwithstanding anything herein to the contrary:

**A. PRIORITY OF OPERATIONS**

If the parties participating in the cost of drilling and completing any well drilled in the Contract Area cannot agree upon the sequence and timing of further operations in the well, then the following elections shall control in the order enumerated:

1. an election to perform additional logging, coring or testing;
2. an election to attempt to complete the well at either the objective depth or objective formation;
3. an election to plug back and attempt to complete the well;
4. an election to deepen the well;
5. an election to sidetrack the well;
6. an election to rework the well by generally accepted stimulation techniques whether or not the well had previously produced in commercial quantities or is capable of commercial production;
7. an election to temporarily abandon the well and;
8. an election to plug and abandon the well.

It is provided, however, that if at the time the participating parties are considering any of the foregoing elections the well bore is in such a condition that a prudent operator would not conduct a particular operation being proposed because of risk of jeopardizing or losing the well prior to completing in the objective formation, such operations shall not be given the priority set out above.

**B. SUBSEQUENTLY CREATED BURDENS:**

If any party hereto hereafter should create any overriding royalty, production payment or other burden against its working interest production and, if any other Party or Parties should conduct Non-Consent operations pursuant to any provision of this Agreement, and, as a result, become entitled to receive the working interest production belonging to the Non-Participating Party, the Party or Parties entitled to receive the working interest production of the Non-Participating Party shall receive such production free and clear of burdens against such production which may have been created subsequent to this Agreement and Non-Participating Party creating such subsequent burden shall hold the Participating Party or Parties harmless with respect to the receipt of such working interest production.

**C. REVENUE DISTRIBUTION**

If a purchaser of any oil, gas or other hydrocarbons produced from the Contract Area declined to make disbursements of all royalties, overriding royalties, working interest or any other payments out of or with respect to production, that are payable on the Contract Area, Operator will, if any Non-Operators so desires, make such disbursements on behalf of said Non-Operators at its direction, provided, Non-Operator shall execute such documents as may be necessary, in the opinion of the Operator, to enable Operator to receive all payments for oil, gas and other hydrocarbons directly from such purchaser. In that event, Operator will use its best efforts to make disbursements correctly, but will be liable for incorrect disbursements only in the event of gross or willful negligence. In such event, Operator shall make disbursements of all such revenues to the royalty, overriding royalty and working interest owners thereof on or before ten (10) days following the date of receipt thereof or on the last day of the month in which received, whichever is later.

## A.A.P.L. FORM 610 – MODEL FORM OPERATING AGREEMENT – 1982

**D. AUTHORITY FOR EXPENDITURES**

Any Authority for Expenditure (AFE) approved by a Party hereto shall constitute its consent to the operation set forth in said AFE and shall not be deemed the monetary limit of the obligation of such Party.

**E. OPERATORS LIEN – SECURITY INTEREST**

Subject to the provisions of Article VII.B. of this Operating Agreement, each party grants to the other parties to this Agreement a lien upon all rights, titles and interests of each other, whether now existing or hereafter acquired, in and to (i) the oil, gas and minerals in, on and under the Contract Area, and (ii) any oil, gas and mineral leases covering the Contract Area or any portion thereof. In addition, each party grants to the other parties to the Agreement a security interest in and to all of such party's rights, titles, interests, claims, general intangibles, proceeds and products thereof, whether now existing or hereafter acquired, in and to (i) all oil, gas and other minerals produced from the Contract Area when produced; (ii) all accounts receivable accruing or arising as a result of the sale of such oil, gas and other minerals; (iii) all cash or other proceeds from the sale of such oil, gas or other minerals once produced; and (iv) all oil and gas wells and other surface and subsurface equipment and facilities of any kind or character located on the Contract Area and the cash or other proceeds realized from the sale thereof (collectively, the "Personal Property Collateral". This Operating Agreement (including a carbon, photographic or other reproduction hereof) shall constitute a non-standard financing statement under the terms of the Uniform Commercial Code of the state in which the Contract Area is located, and, as such, may be filed for record in the real estate records of the county or counties in which the Contract Area is located.

**F. REQUIRED OPERATIONS**

Any well to be drilled or any operation conducted on any well within the Contract Area within the last one hundred eighty (180) days of the primary term or the extended primary term of any lease within the Contract Area shall be deemed a "required operation". As to any required operation proposed, in which any other Party elects not to participate, the Non-Participating Party shall release, relinquish and surrender and forever forfeit proportionately to Participating Parties, all of the Non-Participating Party's interest in and to such Party's interest in and to the lease(s) which would be lost or not earned if such operation were not conducted. The interest of any Party in such relinquished and forfeited leasehold rights shall be assigned proportionately to the Participating Parties by the Non-Participating Party without warranty of title except as to claims by, through or under Assignor, and shall be free of burdens except those shown on Exhibit "A".

**G. OPERATOR'S RIGHT TO NET OUT REVENUES**

In the event any Non-Operator becomes over ninety (90) days delinquent on payment of Joint Interest Billings and has received notice of same, Operator is authorized to deduct operating costs and charges assessable to Non-Operator and permitted under this Agreement, and remit to the Non-Operator its respective net shares of any proceeds attributable to the interest of the Non-Operator being received directly from any purchasers of production from the Contract Area. At such time as the delinquency has been recovered by Operator, Operator will restore full payment of revenues to delinquent Non-Operator.

**H. PIPELINE AND/OR GATHERING LINE CONSTRUCTION**

If any party to this Agreement elects either (i) to construct or purchase or (ii) to join in the construction or purchase of a pipeline and/or gathering line to transport production from the Contract Area, then such party shall so notify the other parties hereto furnishing all pertinent cost and information. Each party receiving such notice shall have the right to participate in the construction or ownership of such pipeline and/or gathering line by assuming its proportionate share of the obligation and paying the cost attributable thereto.

**I. NON-CONSENT ELECTION AT PRODUCTION CASING POINT ON INITIAL WELL**

If one or more, but less than all, parties participating in the drilling of the Initial Well elect to make a completion attempt in the Initial Well, the parties electing to complete same shall have the right to do so at their sole cost, risk and expense, including plugging and abandonment costs if the completion attempt is unsuccessful. If the completion attempt is successful, the non-participating parties shall have forfeited to the participating parties all of its (their) right, title and interest in and to the Initial Well, its equipment, the leases within the Contract Area, this agreement and the production therefrom; provided, however, it is understood and agreed that there shall be a separate election for each completion attempt for each potentially productive interval and the aforesaid forfeiture of interest is limited to such production sand or interval. Consequently, non-participation by a party in one completion attempt will not preclude the participation in or constitute a forfeiture of rights by the same party in subsequent completion attempts; provided, further, however, in order for such non-participating party to participate in subsequent attempts, such party must at the time of such subsequent completion attempt, pay in addition, its proportionate share of the initial completion cost that would have been incurred in connection with the subsequent completion had the subsequent completion attempt been the only completion attempt made. For example, the non-participating party at the time of a subsequent completion attempt would be required to pay its share of such cost of casing, cement, tubing, related services, etc., incurred in connection with the initial completion utilized or related to the subsequent completion attempt.

**J. MORE THAN ONE OPERATION**

No party may propose more than one operation at a time under Article VI.B. of this Agreement, nor may any party propose an operation until any previously proposed operation has been completed, unless mutually agreed upon by all parties; excepting only with regard to Obligatory Operations as described in Article XV.F. above.

**K. CONTRACT DISCREPANCIES**

This Article XV is intended to modify and supplement the other provisions of this agreement. In the event of any discrepancies between the terms of this Article XV and the remainder of this agreement, the terms of Article XV shall control.

L. INFORMATION TO PARTICIPATING PARTIES

Operator shall furnish each Participating Party the following information pertaining to each well being drilled:

- 1) A copy of the application for permit to drill and all amendments thereto;
- 2) A daily drilling report, giving the depth, corresponding lithological information, data on drilling fluid characteristics, information about drilling difficulties or delays, if any, daily cost and cumulative cost and other pertinent information, by email or telecopier or other facsimile transmission within twenty-four (24) hours (inclusive of Saturdays, Sundays, and federal holidays) for well operations conducted in the preceding twenty-four (24) hour period;
- 3) A complete report of each core analysis;
- 4) A copy of each electrical survey, currently as it is run, all data for each radioactivity log, temperature survey, deviation or directional survey, caliper log, and other log or survey obtained during the drilling of the well, and, upon completion of the well, a composite of all electrical-type logs, insofar as is reasonable and customary;
- 5) A copy of all well test results, bottom-hole pressure surveys, and fluid analyses;
- 6) Upon written request received by Operator before commencement of drilling, samples of cuttings and cores taken from the well (if sufficient cores are retrieved), packaged in containers furnished by Operator at the expense of the requesting Party, marked as to the depths from which they were taken, and shipped collect by express courier to the address designated by the requesting Party;
- 7) To the extent possible, twenty-four (24) hours' advance notice of, and access to, logging, coring, and testing operations;
- 8) A daily report on the volume of oil, gas, condensate and water produced from each well;
- 9) A copy of each report made to a governmental authority having jurisdiction; and
- 10) Upon written request, other pertinent information available to Operator.

M. SUBSTITUTE WELL

If, prior to reaching the proposed depth in any well drilled pursuant hereto, said well encounters impenetrable substances or conditions, including loss of the hole due to mechanical difficulties, which in the opinion of a reasonably prudent operator under the same or similar conditions would render further drilling impracticable or hazardous, and such condition prevents further drilling of the well, Operator shall discontinue drilling operations and plug and abandon such well. The parties participating in such well shall have the option, but not the obligation to commence operations for the drilling of a substitute well ("Substitute Well") at a mutually agreeable location and shall have as its objective, the total depth proposed in the prior well. Any such Substitute Well shall be commenced no later than ninety (90) days after the drilling rig is released from the preceding well and shall be deemed for all purposes as the well for which it is a substitute.

N. INITIAL WELL NON-CONSENT

Notwithstanding anything in this Operating Agreement to the contrary, in the event any party hereto elects not to participate in the drilling of the Initial Well provided for in Article VI. A. or any party hereto is deemed a non-consenting party in the drilling of said Initial Well and in the event the Initial Well is drilled to the depth specified in the proposal of such well, any party electing not to participate (or being deemed a non-consenting party) in the drilling of the Initial Well shall have no further rights to the Contract Area and any such party shall within seven (7) days assign all of its rights, titles and interests in the Contract Area to the parties participating in the drilling of the Initial Well effective as of the date the Initial Well reaches its total depth.

O. ADVANCE PAYMENTS AND DEFAULT

Notwithstanding any other provision herein, Operator shall have the right to request and receive from Non-Operator payment in advance for its respective share of the estimated amount of expense to be incurred in operations hereunder during the next 30 day period. A Non-Operator receiving a request for advance payment shall, within fifteen (15) days, pay to Operator in cash or by check in immediately available funds the full amount of such request. Should any party fail to pay its proportionate share of estimated costs within the above-mentioned time, said party shall have forty-eight (48) hours to correct such default upon receipt of written notice from Operator mailed "Certified Return Receipt Requested" or by overnight delivery. Notwithstanding the provisions hereof, in the event any party, after first consenting to an operation proposed in accordance with this Operating Agreement shall fail to pay its proportionate share of the estimated expense to be incurred in connection therewith as provided in this Article XV.O. within the time period provided, such party shall, at the written election of Operator, be retroactively deemed a Non-Consenting Party in the operation proposed, subject to the penalties set forth in this Operating Agreement. Any rights granted Operator pursuant to this Article XV.O. shall not preclude Operator from exercising any other rights or remedies, at law or in equity to which Operator may be entitled.

P. AREA OF MUTUAL INTEREST

The parties hereto hereby create an Area of Mutual Interest (AMI) comprising of the acreage within the Contract Area. This AMI shall remain in force and effect during the term of this operating agreement.

During the term of this AMI if any party hereto ("Acquiring Party") acquires any oil and gas lease or any interest therein, any unleased mineral interest or any farmouts or other contracts with respect thereto which affects lands and minerals lying within the AMI ("Acquired Interest") the Acquiring Party shall promptly advise each of the other parties hereto of such acquisition. In such event, each party shall have the right to acquire its proportionate interest in such Acquired Interest by paying its share of the actual acquisition costs for such Acquired Interest.

Upon obtaining the Acquired Interest, the Acquiring Party shall promptly submit to other parties copies of all instruments of acquisition including, but not limited to, copies of leases, assignments, farmouts or other contracts affecting the Acquired Interest. The Acquiring Party shall enclose an itemized statement of the actual costs and expenses incurred by Acquiring Party in said acquisition. Each party shall have a period of fifteen (15) days after receipt of such notice to provide the Acquiring Party written notice of its election to acquire its proportionate interest in the Acquired Interest and provide payment therefor.

**ARTICLE XVI.  
MISCELLANEOUS**

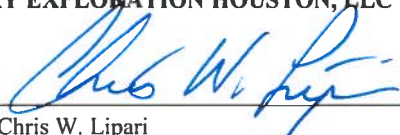
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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 1st day of June, 2013.

**OPERATOR**

**CENTURY EXPLORATION HOUSTON, LLC**

By:   
Chris W. Lipari  
Title: Land Manager

**NON-OPERATOR**

**LAKESIDE ENERGY PARTNERS PARTICIPATION, LTD.**

By: Lakeside Operating, LLC, General Partner

By:   
Wayne L. Adams  
Title: President

**EXHIBIT "A"**

Attached to and made a part of that Operating Agreement dated June 1, 2013, by and between Century Exploration Houston, LLC, as Operator, and Lakeside Energy Partners Participation, Ltd., as Non-Operator

**I. CONTRACT AREA**

See Exhibit "A-1" for a Plat of the Contract Area and Exhibit "A-2" for the Description of the Contract Area.

**II. RESTRICTION AS TO DEPTH**

None

**III. INTEREST OF THE PARTIES**

	<u>*Before Production Casing Point In the Initial Well</u>	<u>*After Production Casing Point In the Initial Well And all Subsequent Wells</u>
Century Exploration Houston, LLC	75.000000%	75.000000%
Lakeside Energy Partners Participation, Ltd.	<u>25.000000%</u>	<u>25.000000%</u>
	100.000000%	100.000000%

\* Production Casing Point shall be defined as that time at which the Initial Well has been drilled to its objective depth, all evaluations have been run in the well and the results furnished to the Participating Parties and the operator recommends to either (i) run production casing in an attempt to complete same as a commercially productive well or (ii) plug and abandon said well.

**IV. IDENTIFICATION OF THE LEASES SUBJECT TO AGREEMENT**

See Exhibit "A-3" for a list of the oil and gas leases and/or oil and gas interest subject to this agreement.

**V. ADDRESSES OF PARTIES**

Century Exploration Houston, LLC  
 Attn: Chris W. Lipari  
 10210 Grogan's Mill Road  
 Suite 300  
 The Woodlands, Texas 77380  
 Phone: 281-362-3662  
 Fax: 281-362-7124  
 Email: chris.lipari@centuryx.com

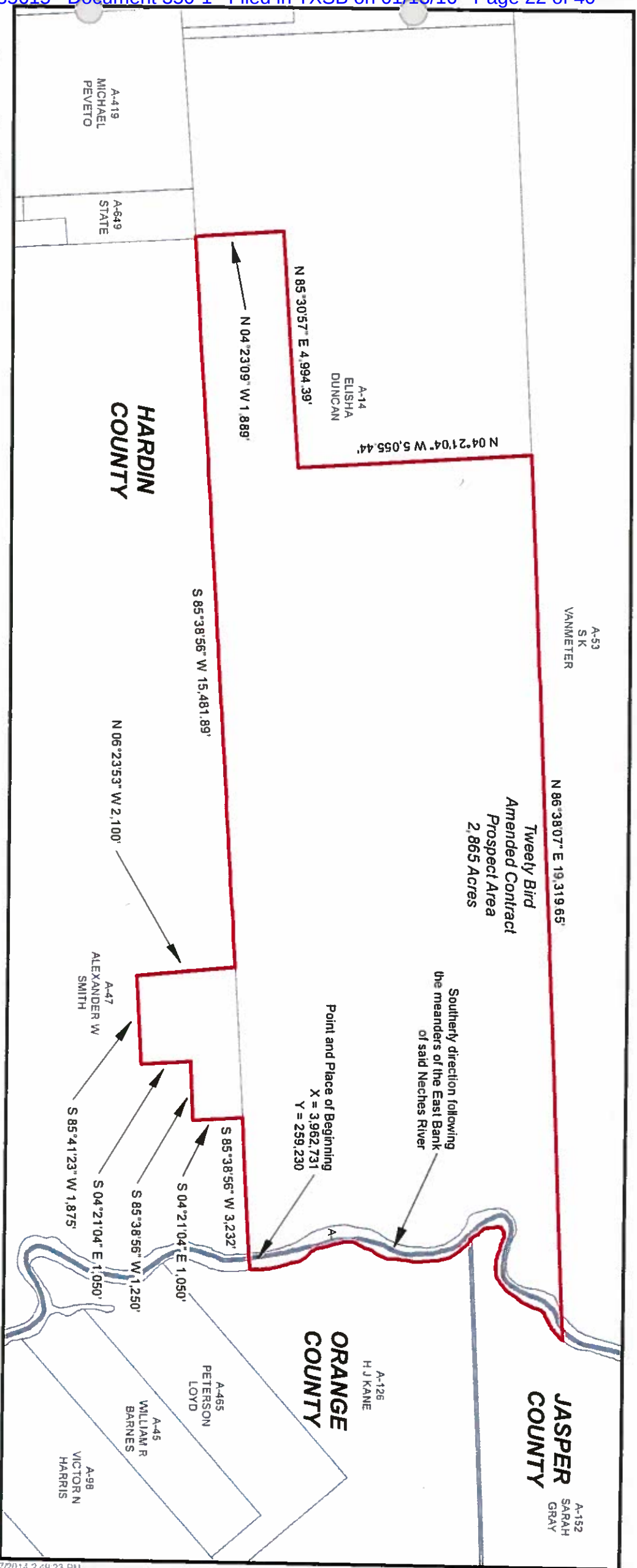
Lakeside Energy Partners Participation, Ltd.  
 Attn: Wayne L. Adams  
 2203 Timberloch Place  
 Suite 251  
 The Woodlands, Texas 77380  
 Phone: 832-610-3640  
 Fax: 832-562-3839  
 Email: wayne.adams@lakesidenrg.com

**VI. LEASEHOLD BURDENS**

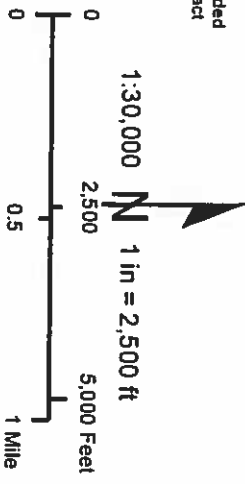
A. EACH PARTY SIGNING THIS AGREEMENT SHALL BEAR ITS PROPORTIONATE SHARE OF THE ROYALTY BURDENS UNDER THE LEASES DESCRIBED UNDER ARTICLE IV. ABOVE OF THIS EXHIBIT "A".

B. EACH PARTY SIGNING THIS AGREEMENT SHALL BEAR ITS PROPORTIONATE SHARE OF (i) AN AFTER PAYOUT OVERRIDING ROYALTY INTEREST TO BE ASSIGNED BY OPERATOR TO LAKESIDE ENERGY PARTNERS PARTICIPATION, LTD., OR ITS DESIGNEES, EQUAL TO 1.5% ON ALL LEASES IN WHICH THE NET REVENUE INTEREST IS 75% OR MORE, AND EQUAL TO 1.0% ON ALL LEASES IN WHICH THE NET REVENUE INTEREST IS LESS THAN 75% (COLLECTIVELY THE "APO ORR") AND (ii) AN ADDITIONAL AFTER-PAYOUT OVERRIDING ROYALTY INTEREST TO BE ASSIGNED BY OPERATOR TO CERTAIN EMPLOYEES OF OPERATOR'S PARENT ("OPERATOR'S APO ORR"). OPERATOR'S APO ORR WILL BE EQUAL IN ALL RESPECTS TO THE APO ORR. THE TOTAL OF BOTH OVERRIDES WILL APPLY TO THE COMBINED INTERESTS OF ALL THE PARTIES TO THIS AGREEMENT, AND EACH SUCH PARTY WILL BEAR ITS PROPORTIONATE SHARE OF BOTH THE APO ORR AND OPERATOR'S APO ORR. FOR PURPOSES HEREOF, PAYOUT SHALL BE CALCULATED ON A WELL BY WELL BASIS AND REFER TO THAT POINT IN TIME AT WHICH ALL OF PARTICIPATING PARTY'S COSTS TO DRILL, COMPLETE, HOOK-UP, EQUIP AND OPERATE EACH WELL ON THE CONTRACT AREA, AND FOR THE FIRST WELL ON THE CONTRACT AREA, THE PARTICIPANTS' LEASEHOLD ACQUISITION COSTS FOR THE CONTRACT AREA HAVE BEEN RECOVERED BY THE PARTICIPATING PARTIES OUT OF THE PRODUCTION FROM THAT PARTICULAR WELL, AFTER PAYMENT OF ROYALTIES, OTHER LEASE BURDENS CREATED PRIOR TO THE TIME THAT THE PARTIES ACQUIRE THEIR INTERESTS THEREIN, AND SEVERANCE TAXES.

# EXHIBIT "A-1"



Amended Contract Area



Coordinate System: NAD 1927 UTM Zone 14N  
 Projection: Transverse Mercator  
 Datum: North American 1927  
 Units: Feet US

Century Exploration Houston, LLC



March 27, 2014

EXHIBIT "A-2"

Attached to and made a part of that Model Form Recording Supplement to Operating Agreement and Financing Statement dated effective June 1, 2013, by and between Century Exploration Houston, LLC, as Operator and Lakeside Energy Partners Participation, Ltd., as Non-Operator

BEING a 2,865.00 Acre Tract out of the Elisha Duncan League, Abstract No. 14 and A.W. Smith League, Abstract No. 47 in Hardin County, Texas and a portion of the Neches River lying in Hardin County and Orange County, Texas, said 2,865.00 acre tract is more particularly described as follows;

COMMENCEING in the east bank of the Neches River, also being the West line of the H. Kane Survey, Abstract No. 126 in Orange County, Texas, for the POINT AND PLACE OF BEGINNING. Said POINT AND PLACE OF BEGINNING has a Texas State Plane Coordinate Value of Y = 259,230 and X = 3,962,731, from which point the southeast corner of said Duncan League and the northeast corner of the Smith League bears S 85°38'56" W at a distance of 331.51 feet.

THENCE S 85°38'56" W over and across said Neches River, passing the Southeast corner of said Duncan League and the Northeast corner of said Smith League for a distance of 3,232 feet for a point for corner;

THENCE S 04°21'04" E over and across said Smith League for a distance of 1,050 feet for a point for corner;

THENCE S 85°38'56" W over and across said Smith League for a distance of 1,250 feet for a point for corner;

THENCE S 04°21'04" E over and across said Smith League for a distance of 1,050 feet for a point for corner;

THENCE S 85°41'23" W over and across said Smith League for a distance of 1,875 feet for a point for corner;

THENCE N 06°23'53" W over and across said Smith League for a distance of 2,100 feet to the North line of said Smith Survey and the South line of said Duncan League for a point for corner;

THENCE S 85°38'56" W along and with the South line of said Duncan League and the North line of said Smith League for a distance of 15,481.89 feet for a point for corner. Said point being the southwest corner of that 831 acre tract of land, more or less, out of the Elisha Duncan League, A-14, Hardin County, Texas, being described as the Second Tract in that certain Oil and Gas Lease dated December 16, 1925, by and between, the Nona-Fletcher Lumber Company and Roxana Petroleum Corporation, recorded in Volume 105, at Page 16 of the Deed Records of Hardin County, Texas (hereinafter the "831 Acre Tract");

THENCE N 04°23'09" W over and across said Duncan League, along and with the West line of the 831 Acre Tract, for a distance of 1,889 feet to the Northwest corner of the 831 Acre Tract, for a point for corner;

THENCE N 85°30'57" E over and across said Duncan League, along and with the North line of the 831 Acre Tract, for a distance of 4,994.39 feet to the Southwest corner of that 1,912.00 acres, more or less, out of the Elisha Duncan League, A-14, Hardin County, Texas being described in that Memorandum of Oil and Gas Lease made effective on September 19, 2013, by and between, Black Stone Minerals Company, L.P. and Century Exploration Houston, LLC, recorded under Instrument Number 2013-42104, of the Official Public Records of Hardin County, Texas (hereinafter the "1,912 Acre Tract"), for a point for corner;

THENCE N 04°21'04" W over and across said Duncan League, along and with the West line of the 1,912 Acre Tract, for a distance of 5,055.44 feet, to the North line of said Duncan Survey and the Northwest corner of the 1,912 Acre Tract, for a point for corner;

THENCE N 86°38'07" E along and with the North line of said Duncan Survey and the South line of the S.K. Vanmeter League, A-53, Hardin County, Texas, passing the Northeast corner of said Duncan League and the Southeast corner of the said Vanmeter League for a distance of 19,319.65 feet to a point for corner in the East Bank of said Neches River and the West line of the Sarah Gray League, Abstract No. 152, Jasper County, Texas;

THENCE in a Southerly direction following the meanders of the East Bank of said Neches River, passing the Jasper/Orange County line, the South line of said Gray League and the North line of said Kane Survey to the POINT AND PLACE OF BEGINNING, containing 2,865.00 acres of land, more or less.



**Exhibit "A-3"**

Attached to and made a part of that Model Form Recording Supplement to Operating Agreement and Financing Statement dated effective June 1, 2013, by and between, Century Exploration Houston, LLC, as Operator, and Lakeside Energy Partners Participation, Ltd., as Non-Operator

**SCHEDULE OF LEASES\***

<u>Lease No.</u>	<u>Lessor</u>	<u>Lessee</u>	<u>Lease Date</u>	<u>County</u>	<u>State</u>	<u>Book</u>	<u>Page</u>	<u>Registry</u>
P30101525.038	Bachman Partnership No. One	Century Exploration Houston, Inc.	07/14/2011	Hardin	TX			2011-21756
P30101525.039	Bachman Partnership No. Two	Century Exploration Houston, Inc.	07/14/2011	Hardin	TX			2011-21757
P30101525.043	Turner F. Austin, II	Century Exploration Houston, Inc.	08/05/2011	Hardin	TX			2011-24995
P30101525.052	Kreager Children's Testamentary Trust	Century Exploration Houston, LLC	01/25/2013	Hardin	TX			2012-26581
P30101525.053	Lee Ray McLellan	Century Exploration Houston, LLC	01/07/2013	Hardin	TX			2013-35521
P30101525.054	Nancy T. Kacvinski Living Trust	Century Exploration Houston, LLC	01/25/2013	Hardin	TX			2013-36065
P30101525.055	Lennuel L. Council	Century Exploration Houston, LLC	02/25/2013	Hardin	TX			2013-36066
P30101748.001	Estate of N. D. Williams	Century Exploration Houston, LLC	02/28/2012	Hardin	TX			2012-27799
P30101748.002	Estate of L. L. Williams	Century Exploration Houston, LLC	02/28/2012	Hardin	TX			2012-27800
P30101748.003	Howell Cobb Family Trust	Century Exploration Houston, LLC	05/14/2012	Hardin	TX			2012-27797
P31001558.002	Legacy Minerals Ltd.	Century Exploration Houston, LLC	07/16/2012	Hardin	TX			2012-30062
P31001558.003	William Kent Richards	Century Exploration Houston, LLC	04/03/2012	Hardin	TX			2012-30275
P31001558.004	Thomas Benjamin Hooks	Century Exploration Houston, LLC	02/15/2012	Hardin	TX			2012-31040
P31001558.005	Mark Wilson Frost	Century Exploration Houston, LLC	09/20/2012	Hardin	TX			2012-33366
P31001558.006	Jack Meyer Frost	Century Exploration Houston, LLC	09/20/2012	Hardin	TX			2012-32512
P31001558.007	Ruth Hooks Armour	Century Exploration Houston, LLC	02/15/2012	Hardin	TX			2012-32511
P31001558.008	Olga Prather Singleton Trust	Century Exploration Houston, LLC	02/15/2012	Hardin	TX			2012-32947
P31001558.009	Barbara Lanier Holmes et al	Century Exploration Houston, LLC	09/07/2012	Hardin	TX			2012-33365
P33501765.003	Dan B. Dickey et al	Century Exploration Houston, LLC	02/15/2012	Hardin	TX			2012-32514
P33501765.004	TMT Mineral Trust	Century Exploration Houston, LLC	03/07/2012	Hardin	TX			2012-27881
P33501765.005	Linda Lou Rhodes	Century Exploration Houston, LLC	03/08/2012	Hardin	TX			2012-27884
P33501765.006	Richard Mahler	Century Exploration Houston, LLC	03/26/2012	Hardin	TX			2012-27886
P33501765.007	William Murry Ross	Century Exploration Houston, LLC	04/04/2012	Hardin	TX			2012-27887
P33501765.008	Malcolm Carl Ross	Century Exploration Houston, LLC	04/04/2012	Hardin	TX			2012-27888
P33501765.010	Wallace Lee Honeycutt	Century Exploration Houston, LLC	04/04/2012	Hardin	TX			2012-27889
P33501765.011	Woods Family Trust II	Century Exploration Houston, LLC	04/04/2012	Hardin	TX			2012-27891
P33501765.018	David Gayley Hooks	Century Exploration Houston, LLC	02/15/2012	Hardin	TX			2012-27892
P33501765.026	Douglas H. Dickey et al	Century Exploration Houston, LLC	02/15/2012	Hardin	TX			2012-26565
P33501765.027	Jayne Turner Davis	Century Exploration Houston, LLC	04/01/2012	Hardin	TX			2012-28606
P33501765.028	Marilyn S. Chionsini Lifetime Trust	Century Exploration Houston, LLC	04/01/2012	Hardin	TX			2012-28607
P33501765.040	Benjamin D. Orgain, Jr.	Century Exploration Houston, LLC	05/11/2012	Hardin	TX			2012-28608
P33501765.041	Jon Taylor et al	Century Exploration Houston, LLC	05/11/2012	Hardin	TX			2012-29169
P33501765.042	Richard M. Bell Trust et al	Century Exploration Houston, LLC	05/11/2012	Hardin	TX			2012-29170
								2012-29171

P33501765.043	Zachariah Orgain Ellis Grantor Trust et al	Century Exploration Houston, LLC	05/11/2012	Hardin	TX	2012-29172
P33501765.044	Pamela P. Richards Watts	Century Exploration Houston, LLC	05/11/2012	Hardin	TX	2012-29173
P33501765.064	Barbara Hambright Scribner	Century Exploration Houston, LLC	09/24/2012	Hardin	TX	2012-32513
P35501935.001	Hosford/Hamilton Trusts	Century Exploration Houston, LLC	06/17/2013	Hardin	TX	2013-40149
P36001936.000	BP America Production Company (C-1012401)	Century Exploration Houston, LLC	08/12/2013	Hardin	TX	2013-40538
P35501925.002	Black Stone Minerals Company, et al	Century Exploration Houston, LLC	9/19/2013	Hardin	TX	2013-42104

\*Including any and all amendments, ratifications, extensions, renewals, counterparts and/or other contractual agreements associated with the above described leases.

INSOFAR AND ONLY INSOFAR AS THE LANDS COVERED BY THE ABOVE DESCRIBED LEASE(S) ARE SITUATED WITHIN THE GEOGRAPHICAL CONFINES OF THE AREA DESCRIBED ON EXHIBITS A-1 AND A-2.

**SCHEDULE OF WELLS**

1.

**EXHIBIT "B"**

Attached to and made a part of that Operating Agreement  
dated June 1, 2013, by and between  
Century Exploration Houston, LLC, as Operator,  
and Lakeside Energy Partners Participation, Ltd., as Non-Operator

There is no Exhibit "B" to this agreement.

**EXHIBIT "C"**

Attached to and made a part of that Operating Agreement dated June 1, 2013 \_\_\_\_\_, by and between  
 Century Exploration Houston, LLC, as Operator, and Lakeside Energy Partners Participation, Ltd.  
 as Non-Operator

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

"Parties" shall mean Operator and Non-Operator.

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

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

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

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

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

**2. Statement and Billings**

Operator shall bill Non-Operator 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-Operator**

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

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

**4. Adjustments**

Payment of any 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-Operator 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-Operator, 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 1. Where there are two or more Non-Operator, the Non-Operator 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-Operator's 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-Operator 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-Operator**

Where an approval or other agreement of the Parties or Non-Operator 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-Operator of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operator shall be controlling on all Non-Operator.

**II. DIRECT CHARGES**

Operator shall charge the Joint Account with the following items:

**1. Ecological and Environmental**

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

**2. Rentals and Royalties**

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

**3. Labor**

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section 11. 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 11.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section 11.

**4. Employee Benefits**

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost 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 11 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 (12.0%) 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 1, 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.  
 \*and reclamation

**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**

**I. Overhead - Drilling and Producing Operations**

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all 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.
- (See Article VI 1. of this Accounting Procedure)

**A. Overhead - Fixed Rate Basis**

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

Drilling Well Rate: \$ \_\_\_\_\_  
 (Prorated for less than a full month)

Producing Well Rate: \$ \_\_\_\_\_  
 (See Article VI 2. of this Accounting Procedure)

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

**2. Overhead - Major Construction**

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



the following rates for any Major Construction project in excess of \$100,000:

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 4 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 3 % 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. 4 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 3 % 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-Operator 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% 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.(IXa). 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% 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 \_\_\_\_\_% inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(l)(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 % 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.(IXa) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and % 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-Operator.

- (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-Operator.

**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 I.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-Operator of the proposed charge prior to billing Non-Operator 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-Operator may be represented when any inventory is taken. Failure of Non-Operator to be represented at an inventory shall bind Non-Operator 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 Expenses, 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

**VI. ADDITIONAL OVERHEAD PROVISIONS**

- 1. Notwithstanding anything in Article III. 1. iii. To the contrary, should operator utilize drilling and/or completion consulting services (not directly employed on the Joint Property) for the purpose of (i) designing a well drilling and/or completion plan (ii) preparing drilling and /or completion cost estimates or (iii) supervising the drilling and/or completion operations on a well, Operator shall have the option to charge Non-Operator(s) for its prorata share of the cost of any such consulting services in lieu of charging Non-Operator(s) its prorata share of the applicable Drilling Well Rate. Should Operator select to charge non-Operator(s) for its prorata share of any such consulting services in lieu of the Drilling Well Rate described above, Operator shall nevertheless be entitled to charge Non-Operator(s) for its prorata share of a Drilling Well Rate equal to 10% of the applicable Drilling Well Rate.
- 2. For Overhead on a fixed rate basis, Operator shall charge the Joint Account at the following rates per well per month:
  - A. Onshore – State of Texas

<u>Depth</u>	<u>Monthly Drilling Well Rate</u>	<u>Monthly Producing Well Rate</u>
0 - 5,000	\$3,504	\$ 402
5,001 - 10,000	\$5,396	\$ 609
10,001 - 15,000	\$7,492	\$ 739
15,001 - 20,000	\$9,607	\$1,115
Over 20,000	\$11,033	\$1,628

**EXHIBIT "D"**

Attached to and made a part of that Operating Agreement  
dated June 1, 2013, by and between  
Century Exploration Houston, LLC, as Operator,  
and Lakeside Energy Partners Participation, Ltd., as Non-Operator

**INSURANCE**

1. At all times during the conduct of operations hereunder, Operator shall maintain in force the following minimum limits of insurance at the expense of, and for the benefit of the Joint Account:
  - (a) Workers Compensation Insurance in accordance with the laws of the state(s) in which operations are covered under this Agreement.
  - (b) Employer's Liability Insurance with a minimum limit of \$3,000,000.00 per occurrence.
  - (c) All vessels owned or bareboat chartered by Operator shall be adequately covered by Hull and Protection and Indemnity Insurance.
  - (d) All aircraft owned or chartered by Operator shall be adequately covered by Aircraft Liability Insurance.
2. In addition to the above coverages, the following insurance shall be carried by Operator at the expense of, and for the benefit of the Joint Account:
  - (a) Commercial General Liability Insurance with \$1,000,000.00 combined single limit per occurrence and \$2,000,000.00 in the aggregate.
  - (b) Commercial Automobile Liability Insurance covering owned, non-owned and hired automobiles with a combined single limit of \$1,000,000.00 per occurrence.
  - (c) Umbrella Liability Insurance, including liability for environmental damage, with a combined single limit per occurrence of \$30,000,000.00.
3. Any party may at its own expense acquire such other insurance as it deems proper to protect itself against any claims, losses, damages or destruction arising out of operations of the joint property.
4. Operator shall require all contractors and subcontractors working or performing services hereunder to comply with the Worker's Compensation and Employer's Liability Laws, both State and Federal, and to carry Commercial General Liability and such other insurance as Operator deems necessary.
5. Operator may include Workers Compensation Insurance and Employer's Liability Insurance risks under its qualified self-insurance program provided Operator complies with all applicable laws, and in such event, Operator shall charge the joint account with an amount that shall not exceed the amount of premium that would be charged at the manual rate effective for insurance coverage as if Operator were a purchaser of such coverage from an insurance company or companies.
6. Operator shall require that owners of aircraft and boats chartered hereunder (other than bareboat charters) shall be adequately covered by Hull and Protection and Indemnity Insurance.
7. In connection with all losses, Operator shall upon request (i) furnish copies of accident reports as they are received; ii) give notification of the service of all summons and legal processes; iii) provide information as to the status of any claim or suit of any payment made in connection therewith; and iv) furnish any other available information required for the purpose of fixing or adjusting premiums or to support any claims.
8. Operator and each Non-Operator agree to mutually waive subrogation in favor of each other on all insurances carried by each party and/or obtain such waiver from the insurance carrier if so required by the insurance contract. If such waiver is not obtained, the party failing to do so shall indemnify the other party(s) for any claim by an insurance carrier arising out of subrogation.
9. All uninsured losses and all damages to the joint property shall be borne by the parties hereto in proportion to their respective interests herein.
10. Non-Operator shall have the option to carry its own insurance coverage, except that which is required under 1.(a.) above. Should any Non-Operator elect not to be covered by Operator's insurance, such Non-Operator shall notify Operator in writing and provide Operator with an Insurance Certificate evidencing coverage equal to or in excess of the minimum requirements set forth above.

**EXHIBIT "E"**

Attached to and made a part of that Operating Agreement  
dated June 1, 2013, by and between  
Century Exploration Houston, LLC, as Operator,  
and Lakeside Energy Partners Participation, Ltd., as Non-Operator

**GAS BALANCING AGREEMENT**

Subject to and under the terms of the above described Operating Agreement the parties hereto own and are entitled to share in the oil and gas produced from the wells completed on the Joint Operating Area described in the Operating Agreement (the "JOA").

Each party may make arrangements to sell or utilize its share of the gas produced from said JOA. However, one or more of the parties may be unable to take or market its interest in the gas production from time to time; therefore, to permit each party to produce and dispose of its interest in the gas production from the JOA with as much flexibility as possible, the parties hereto agree to the storage and balancing agreement herein set forth.

## 1.

Subject to the provisions of the Operating Agreement to which this Exhibit is attached, during the period or periods when any party hereto has no market for, or its purchaser is unable to take or if any party fails to take its share of gas, the other parties, or any of them, shall be entitled to produce and take said share, and each of such taking parties shall have the right to take all or any part of its pro rata share thereof, said pro rata share being based on the ratio of its participation percentage under this Operating Agreement to the participation percentages of all taking parties. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interest, but each party taking such gas shall own all of the gas delivered to its purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced, less its share of gas used in lease operation, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto monthly statements showing the total quantity of gas produced, used in lease operations, vented or lost, and the total quantity of condensate recovered.

## 2.

After notice to Operator, any party may begin taking or delivering its share of the gas produced. In addition to its share, each party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to fifty percent (50%) of each overproduced party's share of gas produced, except during the months of November, December, January or February (hereinafter referred to as "Winter Months"). An underproduced party or parties shall be entitled to take make-up gas during the Winter Months, however, the applicable percent shall be reduced to twenty-five percent (25%). If more than one party is entitled to the stated volume of the overproduced parties' share of gas, each shall have the right to take all or any part of its pro rata share thereof, said pro rata share being based on the ratio of its participation percentage under this Operating Agreement to the participation percentages of all entitled parties. Each party shall at all times use its best efforts to regulate its takes and deliveries from the Unit Area so the lease will not be shut-in for overproducing the allowable, if any, assigned thereto by the regulatory body having jurisdiction. The first gas made up shall be assumed to be the first gas underproduced.

## 3.

At all times while gas is produced from the Contract Area, each party taking or marketing gas shall have the option to either:

- 1) furnish to the Operator monthly reports of the volumes of gas delivered to its purchaser during the preceding month and to the revenue attributable thereto; and each party shall pay to the Operator a percentage of the proceeds of such sale equal to the aggregate percentage of any and all royalties and overriding royalties which are payable on gas produced by each party, and Operator will, in turn, make settlement for all royalties and overriding royalties which are payable on gas produced from the Contract Area. In the event that the total royalties and overriding royalties so paid to the Operator be insufficient to discharge royalty then any such deficiency will be borne by the party whose interest is burdened by the royalty or overriding royalty as to which the deficiency was asserted. Any party or parties contributing separate leases to the Contract Area shall furnish the Operator with division order title opinions on which Operator shall be entitled to rely in making distribution of royalties and overriding royalties on production from royalties attributable to its share of production of liquid hydrocarbons recovered from the gas by lease equipment; or
- 2) pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties or other payments due on its share of production which it is obligated to pay by law or by lease or by contract, just as if each party were taking or delivering to a purchaser its share and its share only of such gas production exclusive of gas used in lease operations, vented or lost. Each party hereto shall indemnify and hold the other parties hereto harmless against all claims, losses or liabilities arising out of its failure to fulfill such obligations.

**EXHIBIT "E"**

**(continued)**

**GAS BALANCING AGREEMENT**

4.

Each party producing and taking or delivering gas to the purchaser shall pay any and all production taxes due on such gas.

5.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to the purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

6.

Should production of gas from any reservoir or producing formation of each wellbore be permanently discontinued before the gas account is balanced, case settlement will be made between the underproduced and overproduced parties. In making such cash settlement, each overproduced party shall make payment to Operator along with sufficient accounting documentation as hereinafter described and Operator shall make disbursement to the underproduced parties. The price to be paid for the overproduced volumes which have been taken and sold shall be the actual price received for the last accrued over-production (in the reverse order of accrual, taking most recent over-production and going back until net overproduction is accounted for) by the overproduced party or parties, less appropriate deductions for taxes and/or royalties paid on such production by the overproduced party. For gas taken but not sold, settlement shall be based on the price which the taking party would have received under its purchase agreement if the gas had been sold at the time taken, or, in the absence of a contract, at the weighted average price of the parties selling gas at the time the gas was taken.

In the event any gas sold under this Agreement is subject to a regulated price by FERC or a successor agency or governmental authority with jurisdiction thereover, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by NGPA or as required by the FERC pursuant to the final determination, order, or settlement applicable to the gas sold from any reservoir (other than the general refund obligations of 18 CFR Section 273.301 or its successor regulation and the potential refund obligations arising from the lack of absolute finality provided by Section 503 (d) (1) and (2) of the NGPA plus any additional collected amount to be accounted for at such time as final determination is made with respect thereto but shall not exceed their contractually entitled price of the underproduced party. Notwithstanding the foregoing, should the underproduced party desire to receive such additional collected amount which is subject to possible refund pending the issuance of said final determination, order, or settlement, such underproduced party shall be entitled to the payment thereof from the overproduced party or parties upon the underproduced party executing and delivering to said overproduced party or parties an acceptable agreement in which the underproduced party agrees to repay to the overproduced party or parties that amount so paid that is required by said final determination, order, or settlement to be refunded, plus the interest thereon specified in the pertinent order of the Commission.

Notwithstanding anything within this agreement to the contrary, in no event shall an underproduced party be entitled to an overproduction payment which is attributable to a price which was higher than the underproduced party could have collected under the terms of its gas purchase contract, if in existence, at the time the gas was taken by the overproduced party. Further, no overproduced party shall ever be required to make an overproduction payment to an underproduced party which exceeds the amount the overproduced party actually received for the gas at the time it was produced.

7.

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in JOA operations as its share thereof is set forth in the above described Joint Operating Agreement.

8.

Each party hereby indemnifies the other parties hereto against all liability to, and agrees to defend the other parties hereto against, all claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party which arise out of the operation of this Agreement or activities authorized to be conducted by any party under its provisions; and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred in connection therewith.

9.

This Agreement shall constitute a separate agreement as to each conservation unit within the Contract Area and shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns

**EXHIBIT "F"**

Attached to and made a part of that Operating Agreement  
dated June 1, 2013, by and between  
Century Exploration Houston, LLC, as Operator,  
and Lakeside Energy Partners Participation, Ltd., as Non-Operator

NON-DISCRIMINATION AND EQUAL EMPLOYMENT OPPORTUNITY

The parties hereto shall not engage in any conduct or practice which violates any applicable law, order or regulation prohibiting discrimination by reason of race, religion, color, sex, national origin or age. The following provisions contained in the Code of Federal Regulation are incorporated herein by reference and the parties hereto shall comply and shall cause its contractors and subcontractors to comply, and certify to such compliance, with: 48 C.F.R. 52.203-6 (Subcontractor Sales to Government); 48 C.F.R. 52.219-8, 52.219-9 (Utilization of Small and Small Disadvantaged Business Concerns); 48 C.F.R. 52.219-13 (Utilization of Women-Owned Business Concerns); 48 C.F.R. 22.804-1, 52.222-26 (Equal Opportunity), 48 C.F.R. 52.222-35 and 41C.F.R. 61.250-5 (Disabled and Vietnam Era Veterans); 48 C.F.R. 52.5222-36 and 41 C.F.R. 60.741-5 (Handicapped Workers) and 48 C.F.R. 52.223-3 (Hazardous Material Identification and Material Safety Data); Executive Orders No. 11246 (Equal Opportunity) and 33 C.F.R. 7804 (Secretary of Labor's regulations concerning Non-Segregated Facilities.) The parties hereto shall cause compliance with the Immigration Reform and Control Act of 1986.