IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

UNITED STATES SECURITIES AND EXCHANGE COMMISSION,	§	
	§	
Plaintiff,	§	
	§	
v.	§	
	§	
THE HEARTLAND GROUP VENTURES, LLC; HEARTLAND PRODUCTION AND RECOVERY LLC; HEARTLAND PRODUCTION AND RECOVERY FUND LLC; HEARTLAND PRODUCTION AND RECOVERY FUND II LLC; THE HEARTLAND GROUP FUND III, LLC; HEARTLAND DRILLING FUND I, LP; CARSON OIL FIELD DEVELOPMENT FUND II, LP; ALTERNATIVE OFFICE SOLUTIONS, LLC; ARCOOIL CORP.; BARRON PETROLEUM LLC; JAMES IKEY; JOHN MURATORE; THOMAS BRAD PEARSEY; MANJIT SINGH (AKA ROGER) SAHOTA; and RUSTIN BRUNSON,	§	**No. 4-21CV-1310-O-BP**
	§	
Defendants,	§	
	§	
and	§	
	§	
DODSON PRAIRIE OIL & GAS LLC; PANTHER CITY ENERGY LLC; MURATORE FINANCIAL SERVICES, INC.; BRIDY IKEY; ENCYPHER BASTION, LLC; IGROUP ENTERPRISES LLC; HARPRIT SAHOTA; MONROSE SAHOTA; SUNNY SAHOTA; BARRON ENERGY CORPORATION; DALLAS RESOURCES INC.; LEADING EDGE ENERGY, LLC; SAHOTA CAPITAL LLC; and 1178137 B.C. LTD.,	§	
	§	
Relief Defendants.	§	
	§	
	§	

RECEIVER'S EXPEDITED MOTION FOR APPROVAL OF MODIFIED FARMOUT AGREEMENT

Deborah D. Williamson, in her capacity as the Court-appointed Receiver (the "Receiver") for the Receivership Parties (as defined in the Receivership Order [ECF No. 17])[1] and the receivership estates (collectively, the "Receivership Estates") in the above-captioned case (the "Case" or the "Receivership"), hereby files this *Expedited Motion for Approval of Modified Farmout Agreement* (the "Motion") in connection with leases in Val Verde and Crockett Counties, seeking entry of the proposed form of order attached hereto as **Exhibit B**.

I. BACKGROUND

1. The Receiver incorporates "Background" included in her *Motion to Approve Farmout Agreement and to Extend Lease* [ECF No. 268] (the "Initial Farmout Motion").

2. As set out in the Initial Farmout Motion, the lessors and the Receiver reached a farmout agreement (the "Initial Farmout Agreement") with SDMB Resources LLC, *et al.* ("SDMB") (the former proposed "Farmees"), subject to this Court's approval, which (a) designated Atoka Operating, Inc. ("Atoka") as the operator under the operating agreement which governed operations under the Initial Farmout Agreement, (b) provided a payment to Receiver by Farmees of $100,000.00, (c) a payment to the Carson/Childress Lessors of (i) $25,000.00 by the Receiver, and (ii) $25,000.00 by the Farmees, (d) extension of the primary term of the I.W. Carson leases, (e) created the opportunity to have one or more of the existing wells begin producing, (f) provided a carried 50% working interest in the 11 existing wells until recovery by the Receiver of the sum of $5.5 million, (g) following payout of the carried 50% working interest, reserved to the Receiver a 7.5% cost-bearing working interest for any future

[1] Capitalized terms used herein but not otherwise defined shall have the meaning ascribed in the Receivership Order or the Initial Farmout Motion, as applicable.

development (new drilling), subject to the terms of the Initial Farmout Agreement, and (h) provided a mechanism to give the Receiver a potential for upside returns by participating in any wells drilled after the carried interest is fully expended (but without an obligation to do so). The arrangement closely tracked a common "cash-and-carry" consideration from the Farmee group, whereby the Receiver was to convey half of the interest in the Crockett/Val Verde Leases to the Farmee, subject to a condition subsequent in the form of a reversion of the leasehold interest if contemplated operations are not performed and the carry value is not expended for the Receiver's value enhancement within two years from the start of the Initial Farmout Agreement's term. During that time, the Receiver would be entitled to one-half of the net revenue attributable to working interest production sales. After the carry has been fully expended, the Farmees would be entitled to an incremental 92.5% working interest of the Crockett/Val Verde Leases, with the Receiver retaining 7.5% (which can be freely marketed for sale without restriction). There were no objections to the Initial Farmout Motion. The Court approved the Initial Farmout Motion in its November 8, 2022 *Order* (the "Initial Order") [ECF No. 277].

3. The lease extension required that operations commence on or before November 30, 2022, to further extend the lease. The Receiver immediately delivered the $25,000.00 she was required to pay to the Lessors. On or about November 21, 2022, the Receiver was informed both Atoka and THXMT, LLC ("THXMT") were refusing to perform under the Initial Farmout Agreement. Given the looming deadline to begin operations, the Receiver and her advisors immediately began evaluating options.

4. The Receiver and the Lessors entered into an agreement to further extend the deadline to commence operations to December 31, 2022. The Receiver also undertook two parallel paths to address the refusal to perform by Atoka and THXMT: (1) drafting pleadings seeking to

compel performance of the Initial Farmout Agreement and Initial Order and (2) negotiating a revised farmout agreement with SDMB.

5. Fortunately, the Receiver and the Lessors were able to reach such an agreement with SDMB. The revised *Farmout Agreement* and corresponding agreements (the "Revised Farmout Agreement") is attached hereto as **Exhibit A**. The Revised Farmout Agreement has essentially the same economic terms, with one additional potential cost to the Receiver. The $5,500,000 "carry" to the "Farmers Retained WI Joint Interest Billing Account" will be reduced by the lesser of (x) $250,000 or (y) actual costs to remediate the leases for operations attributable to the period prior to the appointment of the Receiver.

6. There are still no assurances that this agreement will result in value for the investors. In the Receiver's business judgment, this agreement still provides an opportunity to determine the value of the Crockett/Val Verde Leases at no cost or risk. Further, if it is determined that such value exists, there will be an opportunity to participate in disproportionate upside returns after being de-risked without the Receiver's capital or to sell the residual interest at a substantial premium to current value.

II. EXPEDITED RELIEF REQUESTED

7. On an expedited basis, the Receiver seeks Court approval to enter into the Revised Farmout Agreement with SDMB in connection with the Crockett/Val Verde Leases, in substantially the form attached hereto as **Exhibit A**, and to sign all related documents in connection therewith, including the revised *Joint Operating Agreement*.

8. Given the current deadline of December 31 to commence operations, the Receiver seeks an expedited hearing **by no later than December 23, 2022**, on her Motion. The Receiver anticipates a time announcement of approximately 30 minutes or less on her Motion.

III. ARGUMENT AND AUTHORITIES

9. Federal courts have broad powers and wide discretion to determine relief in an equity receivership. *SEC v. Elliot*, 953 F.2d 1560, 1566 (11th Cir. 1992) (citing *SEC v. Safety Fin. Serv., Inc.*, 674 F.2d 368, 372 (5th Cir. 1982) (additional citations omitted)). While caselaw involving district courts' administration of an equity receivership is "sparse," two basic principles emerge from cases involving receiverships. *SEC v. Hardy*, 803 F.2d 1034, 1037 (9th Cir. 1986). First, courts have "extremely broad" powers and discretion to "determine the appropriate action to be taken in the administration of the receivership." *Id.*; *see SEC v. Safety Fin. Serv., Inc.*, 674 F.2d 368, 373 (holding that the court overseeing the receivership is given "wide discretionary power" in light of "the concern for orderly administration"). Second, a "primary purpose" of receivership is to promote the orderly and efficient administration of the estate. *Hardy*, 803 F.2d at 1038. In a receivership, the order appointing the receiver governs the administration of the receivership. *See, e.g.*, *Liberte Cap. Grp., LLC v. Capwill*, 248 Fed. App'x 650, 655 (6th Cir. 2007). If the order appointing the receiver is silent on an aspect of the receivership's administration, courts look to the common law governing receiverships that has arisen and evolved over the centuries. Only if both the order appointing the receiver and federal receivership common law are silent on the determinative issues should courts look to other bodies of law for guidance. *See, e.g.*, *Janvey v. Alguire*, Civil No. 3:09-CV-0724-N, 2014 U.S. Dist. LEXIS, at *103–04 (N.D. Tex. Jul. 30, 2014) (noting the dearth of guidance available from existing caselaw on the interplay between the Federal Arbitration Act and federal equity receiverships and, as a result, looking to bankruptcy caselaw for guidance).

10. The Receiver's authority to enter into farmout agreements is not discussed in the Receivership Order and federal receivership common law appears to be silent on the matter; thus, it is prudent to look to bankruptcy case law.

11. Bankruptcy courts have granted a debtor's motion for authority to enter into farmout agreement as being in the best interest of the bankruptcy estate where the properties to be farmed out had resulted only in expenses, and the farmout agreement would place any expense or risk on the other party, while leaving the debtor and its partners in the position of receiving potential upside from the other party's efforts.[2] Here, the Revised Farmout Agreement provides an opportunity to determine the value of the Carson/Val Verde Leases at no cost. Next, it puts the risk and expense on another party to potentially get one or more of the wells to produce. Last, if it is determined that such value exists, there will be an opportunity to participate. Ultimately, the Revised Farmout Agreement provides the Receivership Estates the opportunity to participate in any potential upside to the value of the Crockett/Val Verde Leases without having to endure related risks and expenses.

12. Additionally, a debtor must demonstrate sound business judgment for entering into a farmout agreement outside the ordinary course of business. *In re Cont'l Air Lines, Inc.*, 780 F.2d 1223, 1226 (5th Cir. 1986). Here, the Receiver has sound business reasons for entering into the Revised Farmout Agreement. The Receiver has been unable to find other alternative methods of performing the necessary operations to maintain and produce value out the leases. As discussed above, in the business judgment of the Receiver, a true sale of the Crockett/Val Verde Leases will not recognize the potential value of the leases. Similarly, having the Receiver operate and develop the Crockett/Val Verde Leases is impractical and risks most (if not all) of the funds which have

[2] *See, e.g.*, Mot. for Authority to Enter into Agreement for Farmout of Mineral Interests in Algoa Field, Galveston County, Texas [ECF No. 218] and Order Authorizing Debtor to Enter into Agreement [ECF No. 237], *In re Houston Petroleum Co.*, Case No. 08-31769-H5-11 (Bankr. S.D. Tex. Jan. 29, 2009); *see also* Mot. for Authority to Enter into Agreement for Farmout of Certain Mineral Interests in the Clear Creek Field, Beauregard Parish, Louisiana [ECF No. 454] and Order Authorizing Mot. for Authority to Enter into Agreement for Farmout of Certain Mineral Interests in the Clear Creek Field, Beauregard Parish, Louisiana [ECF No. 481], *In re Turnkey E&P Corp.*, No. 08-37358 -H2-11 (Bankr. S.D. Tex. Feb. 4, 2010) (granting farmout agreement as in best interests of the estate where properties to be farmed out were not producing any revenue, and expenses and risks would be placed on other party under agreement while leaving debtor in the position of receiving potential upside from other party's efforts).

been recovered to date. Instead, the Receiver is seeking approval of the commercially reasonable and customary method of sharing such risk, which courts have also allowed. *See In re Chira*, 343 B.R. 361, 368 (Bankr. S.D. Fla. 2006) (explaining that "generally a receiver cannot enter into contracts binding the estate in receivership to performance extending in time beyond the duration of the receivership," but an exception exists for a "'receiver to make contracts which are usual and customary in the particular operation, although they extend beyond the term of the receivership.'" (quoting *Wigton v. Climax Coal Co.*, 270 Pa. 420, 424 (1921) (citing *Gay v. Hudson River Elec. Power Co.*, 173 F. 1003, 1006 (N.D.N.Y. 1909))). The revised, proposed agreement will also shift the payment of costs associated with any "end of life" or plugging obligations, enabling the Receivership Estates to avoid the potential burden of these costs. The Receiver believes that the proposed transaction is the most likely way to maximize and preserve the realizable value of the underlying leases.

IV. CONCLUSION

13. For the foregoing reasons, the Receiver requests that this Court consider her Motion on an expedited basis and enter an order in the form proposed in **Exhibit B**, granting her Motion and for such further relief to which she may be entitled.

Dated: December 15, 2022

Respectfully submitted,

By: */s/ Danielle N. Rushing*
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COUNSEL TO RECEIVER

CERTIFICATE OF CONFERENCE

I hereby certify that on numerous occasions, counsel for the Receiver conferred with counsel for Plaintiff, Securities and Exchange Commission (the "Commission") and counsel for SDMB with respect to the Receiver's request for an expedited hearing on the Motion and on the relief requested herein. The Commission does not oppose the Receiver's request for an expedited hearing on the Motion or the relief requested herein. Counsel for SDMB does not oppose the Receiver's request for an expedited hearing on the Motion and supports the relief requested herein.

/s/ Danielle N. Rushing
Danielle N. Rushing

CERTIFICATE OF SERVICE

I hereby certify that on December 15, 2022, the foregoing document was served via CM/ECF on all parties appearing in this Case, including counsel for Plaintiff, Securities and Exchange Commission and on the following:

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/s/ Danielle N. Rushing
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EXHIBIT A

FARMOUT AGREEMENT

THIS FARMOUT AGREEMENT (this "Agreement") is entered into on the 14th day of December, 2022 ("**Effective Date**") by and between Deborah D. Williamson Solely In Her Capacity as Court Appointed Receiver for the Estates of Heartland Group Ventures, LLC *et al*, Civil No. 4:21-CV-01310-O, United States District Court for the Northern Division of Texas, Fort Worth Division (**"Receiver"** or **Farmor**") and SDMB Resources LLC ("**SDMB**") ("**Farmee**"). The persons named above and their respective successors and assigns (if any), may sometimes individually be referred to as "**Party**" and collectively as the "**Parties**."

RECITALS

WHEREAS, Farmor is the Receiver for the owner of (1) leasehold and other interests in certain oil and gas leases and supplemental agreements as described in Schedule "A" (the "**Leases**"), (2) working interests and other interests in the hydrocarbon wells listed on Schedule "B" (the "**Initial Wells**") and the pipeline easements listed on Schedule "C" (the "**Pipeline Easements**", and together with the Leases and the Initial Wells, the "**Subject Properties**");

WHEREAS, Farmor is authorized to negotiate and deal in the Leases and the Initial Wells by virtue of the existing and issued orders of the United States District Court for the Northern District of Texas (Fort Worth Division) (the "**Court**") in Cause No. 4:21-CV-01310-O (the "**Court Action**");

WHEREAS, Farmee proposes to operate and develop the Leases and Initial Wells on the terms and subject to the conditions, set forth herein;

NOW, THEREFORE, Farmor and Farmee agree as follows:

I. INTERPRETATION

1.1 **Definitions**. As used in this Agreement, the following capitalized words and terms shall have the meaning ascribed to them below and in the Recitals above. Any capitalized term used in this Agreement and not specifically defined in this Agreement shall have the same meaning as in the Joint Operating Agreement:

A. "**Accounting Procedure**" means the COPAS Accounting Procedure attached as Schedule "D", which is made a part hereof;

B. "**Assigned WI**" means a 50% working interest in and to the Leases and Initial Wells transferred to Farmee as described herein.

C. "**Assignment**" means the document, attached as Schedule "E" and made a part hereof, by which Farmor will transfer and convey fifty percent (50%) of all right, title and interest in and to the Subject Properties to Farmee;

D. **"Bonus"** means a non-refundable bonus payment of one hundred thousand dollars ($100,000).

E. "**Burdens**" means those royalties, overriding royalties, production payments, net profits interests or other charges, if any, applying against the Leases or Initial Wells, or the production or proceeds of production of Hydrocarbons from the Leases or Initial Wells;

F. **"Carry"** means a credit of $5,500,000 to Farmor's Retained WI Joint Interest Billing account under the JOA given at Closing. The Carry will be reduced by the less of (x) $250,000 or (y) actual costs to remediate the leases for operations attributable to the period prior to the appointment of the Receiver.

G. "**Carry Deadline**" means the earlier of (i) the second anniversary of the entry of the Court order approving the Transaction Documents in the Court Action, or (ii) the full expenditure and exhaustion by Farmee of the Carry for the for Farmor's joint interest account for the Subject Properties as set forth in Article 3 below.

H. "**Claim**" means any liability, loss, demand, damage, encumbrance, cause of action of any kind, order, subpoena, obligation, cost, royalty, fee, assessment, duty, charge, penalty, fine, judgment, interest or award (including reasonable legal counsel fees and cost of litigation of the person asserting the Claim), whether arising by applicable law, contract, tort, voluntary settlement or in any other manner.

I. **"Closing"** shall mean the date that the Parties execute this Agreement.

J. **"Earning Operation"** has the meaning set forth in Section 3.4(b).

K. **"Farmor's Final WI"** shall mean the right, after the Carry is exhausted, of Receiver to participate to the extent of a 7.5% (of 8/8) cost-bearing working interest in any Other Wells pursuant to the terms and conditions of the JOA and this Agreement.

L. "**Force Majeure**" shall mean in respect of any person ("**Excused Party**") an event (i) which is beyond the reasonable control of the Excused Party, and (ii) which was not the result of fault or negligence on the part of the Excused Party. Force Majeure events include (to the extent meeting (i) and (ii)): expropriation or confiscation of facilities; act of public enemy; act of war; rebellion or sabotage or damage resulting therefrom; terrorism; epidemics and pandemics; riots; change of law; restraint by order of a Governmental Entity; pollution or hazardous substances at a site; strikes; loss in transit; fire; flood, lightning, tornado, hurricane, earthquake or other similar adverse events; acts or delays of suppliers or other vendors in supplying labor, equipment or consumables; general supply chain interruptions; or causes other than those events or occurrences specified above of a similar nature or effect.

any agency, authority, instrumentality, court, tribunal, board, commission, bureau, arbitrator, arbitration tribunal or other tribunal, or any quasi-governmental or other entity, insofar as it exercises a legislative, judicial, regulatory, administrative, expropriation or taxing power or function of or pertaining to government having jurisdiction over the Subject Properties, the Parties or the work to be carried out or funded hereunder;

N. "**Highlander Agreement**" means that certain agreement between Roger Sahota-Barron Petroleum LLC and Highlander Energy LLC.

O. "**Highlander Claims**" means the overriding royalty interest in those certain Oil and Gas Leases between I. W. Carson LLC and Barron Petroleum LLC covering those lands in Val Verde County, Texas, as more particularly described in that certain Highlander Agreement. Highlander Energy LLC is the holder of such overriding royalty interest.

P. "**Initial JOA**" means the Operating Agreement executed contemporaneously herewith but that pertains solely to operations on the Farmout Area prior to the date upon which Farmee's Assignment is due hereunder. The Initial JOA is not the "JOA" in any respect. The Initial JOA is expressly entitled as such on the face page thereof.

Q. "**JOA**" means the Operating Agreement that designates Farmee as operator attached hereto as Schedule "F", which is made a part hereof.

R. "**Lease Operating Expenses**" has the meaning delineated in the COPAS principles as generally embodied in the Accounting Procedure.

S. **"Operator"** means SDMB.

T. "**Ordinary Lease Expenses**" means all capital expense, major expense, Lease Operating Expense and general and administrative expense (other than overhead and salaries/consulting fees), arising under any Transaction Document, collectively and without regard to the Preliminary Phase or afterward.

U. **"Other Wells"** shall mean one or more additional wells drilled on the Leases, in accordance with the JOA and in the manner set forth therein and herein, after the Preliminary Phase.

V. **"Preliminary Phase"** means the re-entry, re-work, stimulation, and/or attempts to produce one or more of the Initial Wells.

W. **"Retained WI"** means a 50% working interest retained by Farmor, subject to the Carry, as described herein.

X. "**Special Warranty of Title**" means a warranty of title to Farmor's right, title and interest in and to the Leases and the oil and gas wells and facilities located

thereupon as of the date of this Agreement, which warranty period commences on December 1, 2021 and then only as to claims, liens and encumbrances made by, through or under Farmor, but not otherwise. The Special Warranty of Title is subject to (i) all matters of record as of the date of this Agreement, (ii) the Highlander Claims, and (iii) all matters of record in the Court Action.

Y. "**Transaction Documents**" is defined in Section 7.5 below.

1.2 **Schedules**. The following Schedules and Exhibits are attached hereto and made part of this Agreement:

A. Schedule "A", which describes the Leases;

B. Schedule "B", which describes the Initial Wells;

C. Schedule "C", which describes the Pipeline Easements;

D. Schedule "D" which is the **"Accounting Procedure"**;

E. Schedule "E" which is the **"Assignment"**; and

F. Schedule "F" which is the applicable joint operating agreement form **("JOA").**

1.3 **Conflicts**. If any provision contained in the body of this Agreement conflicts with a schedule attached hereto, the provisions of this Agreement shall prevail. If any provision of this Agreement conflicts with a provision of the JOA, then the provisions of this Agreement shall prevail.

1.4 **Court Approval**. Performance of this Agreement is strictly conditioned upon Court approval in the Court Action, with any and all such modifications or amendments as may be required therefor. If the Closing occurs but the Court does not approve this Agreement in substantially this form, Farmor shall be entitled to rescind the Agreement without liability or obligation by tendering the Bonus back to Farmee.

II. TITLE AND ENCUMBRANCES

2.1 **Warranties**. Except for the Special Warranty of Title, Farmor makes or gives no representations or warranties of any kind or character with respect to the Subject Properties.

III. ASSIGNMENT TO FARMEE

3.1 **Farmee Payment of Bonus; Assignment to Farmee**. Farmee agrees that at Closing it will pay Farmor the Bonus.

3.2 **Assignment of Subject Properties**. Subject to Farmee's actual physical mobilization onto the Carson Lease (as described in Schedule "A") by December 31, 2022, and upon receipt of the Bonus and Farmor's confirmation that SDMB has been recognized by the Texas Railroad Commission as the operator of record for all of the wells, pipelines and facilities upon the Leases, Farmor shall tender the Assignment to Farmee, subject to the Transaction Documents and providing for the Special Warranty of Title. The Assignment shall convey the Assigned WI, and shall reserve the Retained WI. Notwithstanding Exhibit C to the JOA, the Retained WI shall be subject to the Carry and to defense and indemnity by Farmee from and against third-party claims pertaining to or arising from the Subject Properties (other than those arising from a breach of the Special Warranty of Title). Further, the insurance Operator carries for the Parties' collective benefit under the JOA shall include an endorsement to the general liability policy for coverage of "sudden and accidental" pollution events and shall name all Farmor as an additional insured (and waive subrogation). Subject to the Carry Deadline, upon the full application and exhaustion of the Carry, the Retained WI shall automatically be assigned and transferred to Farmee, save and except therefrom Farmor's Final WI (which shall be deemed an amendment of Exhibit A to the JOA to reflect the revised leasehold ownership). The Assignment shall be effective as of its delivery to Farmee, but shall be subject to reversion of the rights and estates therein conveyed to Farmor upon:

A. Farmee's material breach (including repudiation) of any Transaction Document;

B. Farmee's failure to perform the covenant at the first sentence of this Section 3.2 sufficiently so as preserve the Carson Lease in force and effect through March 30, 2023; or thereafter,

C. Farmee's failure to timely complete the Preliminary Phase.

3.3 As soon as practicable after the Effective Date, the Parties shall sign and deliver such other documents, and take such other actions, as are necessary to have Farmee assume all liabilities for the Leases (and lands described therein) and the wells, easements and surface facilities thereupon, including a novation of obligations owed to the "Lessors" under one or more of the Leases and any associated surface use agreements, or under applicable law. In the event of a reversion to Farmor of the rights and interest assigned pursuant to the Assignment, Farmee shall deliver a recordable assignment to Farmor memorizing same, the from and substance of which shall be as prepared by Farmor in its reasonable discretion.

3.4 **Recompletion and Re-entry Program; Development Drilling**.

A. Farmee will, at Farmee's sole risk and expense, undertake the Preliminary Phase. The Preliminary Phase will be completed as soon as commercially feasible, but in no event later than the first anniversary of the Court Action order approving the Transaction Documents, or else this Agreement and the Transaction Documents shall automatically terminate and Farmor shall owe no duties to Farmee hereunder or otherwise, though Farmee shall continue to be bound to the allocation of risks and liabilities for Claims as set forth elsewhere herein. Ordinary Lease Expenses

shall be borne and paid in full by Farmee until such time as the Carry is satisfied in full (which satisfaction shall be subject to audit by Farmor under generally accepted accounting principles and COPAS standard rules). Notwithstanding any provision of the JOA, including Exhibit B therein, which would dictate a different result, contingent liabilities to third parties accruing to the joint account of the Parties under the Accounting Procedures which arises under applicable law or any agreement, shall be subject to Section 6.2 in all respects and the performance and satisfaction of same shall not be charged against the Carry and shall instead be solely for Farmor's account, except as expressly set forth in Section 3.2(B) below.

B. After completion of the Preliminary Phase, SDMB shall have the option to elect to drill one or more Other Wells. Expenses for the Other wells shall be subject to the Carry until it is exhausted and fully applied, then those expenses shall be borne and paid in proportion to working interest ownership. After the Carry is exhausted, SDMB shall give written notice to Receiver of Receiver's right to participate to the extent of Farmor's Final WI and pursuant to the JOA (except for those provisions thereof subject to the last sentence of this paragraph). Notwithstanding the JOA, if without the drilling, deepening, reworking, completing or re-completing of a well, or any other operation under this Agreement (the "**Earning Operation**"), any lease that would be maintained, perpetuated, earned or acquired, any Party hereto elects not to participate in the Earning Operation after notice and election (or failure to timely elect which shall be deemed an election not to participate) under the terms of the JOA, then said non-consenting party shall not be entitled to any interest in any such perpetuated lease and shall forfeit all rights to earn an interest in such perpetuated lease as to all lands not then allocated to a producing well and associated spacing unit for which said non-consenting party was a consenting party. Revenue entitlement for Farmor's Final WI shall be 7.5% so long as Farmor pay its undisputed invoices when due under the JOA in the ordinary course. Any provision of the JOA that would operate to permanently divest Farmor of leasehold rights based on Farmor's elections for Other Wells except for the risk surcharges that are percentages of new capital investment by Farmee, shall be disregarded.

C. The Carry shall be applied to Ordinary Lease Expense from the inception of the Preliminary Phase forward until exhausted. Farmor shall owe no amounts for any cost, risk or expense incurred in the operation or ownership of the Leases or any well or facility located thereupon, without regard to when drilled or installed or operated, until Farmor's Final WI becomes effective.

D. Revenue entitlement attributable to Farmor's Retained WI shall at all times prior to the exhaustion of the Carry be an amount equal to 50% of the total net revenue interest attributable to the working interests created by the Leases.

3.5 **Joint Operating Agreement**. Farmee will be the designated "Operator" of the Subject Properties and the Parties agree that the Initial JOA shall JOA shall govern operations on the Subject Properties until the Assignment is delivered under Section 3.2, and (assuming performance of Section 3.2 by Farmee), the JOA will govern the Parties' respective rights

and obligations as regards operations related to the Subject Properties and all wells drilled on the Subject Properties (including the Initial Wells), but only to the extent there is no conflict between the terms of this Agreement, the Assignment, the Initial JOA or the JOA itself, and subject in any event to the Carry. In the event of a conflict, the terms of this Agreement will prevail. The Parties agree to execute the JOA and deliver to one another at the effective date of the Assignment as provided for elsewhere herein, but the JOA shall govern all subject matter contemplated therein from the date of this Agreement onward to the extent there is no conflict between the terms of this Agreement and the terms of the JOA. Prior to delivery of the Assignment, the Initial JOA shall govern the rights and obligations of the Parties with respect to the Leases and the Initial Wells to the extent that there is no conflict with this Agreement. Farmee may not propose or commence new wells on the Leases under the Initial JOA without Farmor's manually subscribed consent (which may be withheld for any reason).

3.6 **Lease Operating Expenses**. Notwithstanding anything otherwise provided herein, Farmor will be responsible to timely pay its proportional share of Lease Operating Expenses related to the Subject Properties once the Carry is fully expended, but not before.

IV. FARMOR TAG-ALONG; PREFERENTIAL RIGHT; MARKETING

4.1 **Farmor Tag Along**: In the event that any Party commences marketing or negotiation to sell, transfer or otherwise dispose of all or any part of its interest in the Leases or wells located thereupon (subject to the consent right of Farmor provided for elsewhere herein), that Party shall promptly so inform all Parties, and thereafter, any Party shall have the option (at its sole discretion) to sell its interest in the same Leases and wells to any potential or actual buyer/transferee upon matching economic terms and transaction consummation timing. This right shall be memorialized in the Assignment.

4.2 **Preferential Purchase Right**. So long as Farmee is not in material breach or default hereunder or under the JOA, subject to Farmor's consent right elsewhere herein, in the event that Farmor determines to sell its interest under this Agreement or in the Leases, Farmee shall have the right, for a period of 10 days after notice of the sales agreement from Farmor, to purchase Farmor's interest which is subject to the third-party sales agreement on the identical terms and conditions as agreed to by the third party.

4.3 **Hydrocarbons Marketed for Farmor**. Notwithstanding anything to the contrary in the JOA, Operator shall always market and sell Farmor's share of hydrocarbons from all Wells on the Leases on identical terms and conditions as Farmee receives for its own share, subject to Farmor's right to take in-kind as provided for in said Section XVI.

V. REPRESENTATIONS AND WARRANTIES

5.1 **Representations, Warranties and Covenants of Farmee**. Farmee hereby represents and warrants to Farmor that:

A. SDMB Resources LLC is a limited liability company duly organized and validly existing under the laws of Texas. It is authorized to carry on business on the Subject Properties, and now have the right, power and absolute authority to enter into and perform its obligations under this Agreement.

B. The execution, delivery and performance of this Agreement has been duly and validly authorized by any and all requisite corporate, shareholders' and directors' actions and will not result in any violation of, be in conflict with or constitute a default under any articles, charter, bylaw or other governing document to which Farmor is bound.

C. The execution, delivery and performance of this Agreement will not result in any violation of, be in conflict with or constitute a default under any term or provision of any agreement or document to which Farmee is bound, nor under any judgment, decree, order, statute, regulation, rule or license applicable to it.

D. The Transaction Documents delivered in connection herewith constitute valid and binding obligations of it enforceable against it in accordance with their terms.

E. Farmee has and possesses the financial means and resources to pay all the amounts required or provided to be paid under the Transaction Documents.

F. Farmee has available and has conferred with legal and technical counsel and consultants in connection with its undertaking hereunder to evaluate the potential results of projects specified hereunder and payment of the sums provided hereunder. Farmee is thoroughly familiar with the condition of the Wells and associated surface facilities and surrounding land. Farmee is not relying on Farmor's implied or express representations with respect thereto other than as are explicitly set forth herein.

G. Farmee is (or is thoroughly advised in all respects by those who are) particularly sophisticated and experienced in the oil and gas industry in the geographic area of the Subject Properties, are fully aware from its own prior knowledge of what information they should rely upon and have requested and received all material information a reasonable investor would have prior to each Party's respective performance hereunder.

H. All parties acknowledge that the interests subject to this Agreement are not registered with either state or federal securities regulatory authorities and may not be traded or transferred as securities in reliance on any Transaction Document. Farmee understands that the investment decision contemplated herein is highly

speculative and risk-intensive, and the possibility exists that Farmee could lose its entire investment and be called upon to fund additional operations or otherwise comply with applicable law.

VI. LIABILITY OF THE PARTIES

6.1 **No Partnership**. Nothing contained in this Agreement shall be construed as creating a partnership or similar association.

6.2 **General Allocation of Risk and Liability**. Until the date that the Carry is fully expended and satisfied and Farmor's Final WI becomes effective, Farmor shall have no risk, expense (including Lease Operating Expenses), liability or obligations for any Claim in connection with the Leases (and any agreements executed in connection therewith), or any other matter involving or arising from operations upon the Leases or the lands covered thereby or described in any of them. Liability and obligation for all Claims (other than a material breach of this Agreement) shall be as follows (disregarding the date of this Agreement and regardless of the pre-existing environmental condition of the property):

A. Farmee shall defend, indemnify and save harmless Farmor from and against all Claims that Farmor or its advisors, attorneys, representatives, consultants or contractors may suffer or incur or otherwise be exposed to because of Farmee's undertaking performance of any Transaction Document or because of Farmor's ownership or operation of the Subject Properties, without limit as to time or amount, until Farmor's Final WI becomes effective after satisfaction of the Carry, after which time the risk of and liability for all Claims shall be allocated under the applicable provisions of the JOA (and subject to the obligations of the parties thereto), but Farmee shall defend and indemnify Farmor, but not any successors and assigns, as to liabilities arising from exploration and development operations on the subject properties over and above the pro rata percentage of Farmor's Final WI, but if Farmor has not transferred Farmor's Final WI..

B. ***FARMEE ACKNOWLEDGES THAT (I) THE SUBJECT PROPERTIES HAVE BEEN OPERATED AS OIL AND GAS PRODUCING WELLS AND FACILITIES AND THAT THERE MAY BE ENVIRONMENTAL CONTAMINATION ORIGINATING THEREFROM AS OF THE DATE OF THIS AGREEMENT; (II) FARMOR KNOWS NOTHING ABOUT THE SUBJECT PROPERTIES THAT HAS NOT BEEN MADE AVAILABLE TO FARMEE; AND (III) FARMEE ASSUMES ALL RISKS AND ALL CLAIMS ARISING FROM OWNERSHIP OR OPERATION OF THE SUBJECT PROPERTIES OR ATTRIBUTABLE THERETO WITHOUT REGARD TO THE DATE OF THIS AGREEMENT OR TO THE FAULT OR NEGLIGENCE OF FARMOR (ALL OF WHICH ARE SUBJECT TO SECTION 6.2(1)). FARMOR NEGATES AND DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES OF EVERY TYPE AND CHARACTER OTHER THAN THE SPECIAL WARRANTY OF TITLE, INCLUDING FITNESS FOR PURPOSE OR MERCHANTABILITY.***

C. Pursuant to Section 6.2(B), Farmor acknowledges that all equipment or other items left on the Subject Properties thirty (30) days following the Effective Date shall be effectively transferred to Farmee for the benefit of the joint account under the JOA (but not the Initial JOA).

VII. GENERAL / MISCELLANEOUS

7.1 **Governing Law**. This Agreement and the relationship of the Parties shall be interpreted and construed in accordance with the laws of the State of Texas. Venue for any dispute arising under any of the Transaction Documents or otherwise in connection with any matter between Farmor and Farmee shall lie exclusively in the U.S. District Court for the Northern District of Texas (Fort Worth Division). Each Party waives the right to a jury trial in all cases.

7.2 **Force Majeure**. Notwithstanding anything otherwise provided herein, each Party's obligations hereunder shall be excused and suspended for so long as such Party is an Excused Party as a result of an event of Force Majeure. In order to claim contractual relief as a result of an event of Force Majeure, a Party purporting to be an Excused Party must give the other Party reasonably prompt notice of the event of Force Majeure and any such notice shall include reasonable details thereof.

7.3 **Further Assurances**. From time to time, as and when reasonably requested by a Party, the other Party shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further and other actions to implement or give effect to this Agreement.

7.4 **Waiver**. No waiver by a Party of any breach of any of the covenants, provisos, conditions, restrictions or stipulations herein contained shall take effect or be binding upon that Party unless the same be expressed in writing under the authority of that Party and any waiver so given shall extend only to the particular breach so waived and shall not limit or affect any rights with respect to any other or future breach.

7.5 **Entire Agreement**. This Agreement supersedes any and all other agreements, documents, writings and verbal understandings between the Parties relating to the subject matter hereof, other than the Joint Operating Agreement and the Assignment (collectively, the "**Transaction Documents**"), and the Transaction Documents express the entire agreement of the Parties with respect to the subject matter hereof.

7.6 **Amendment**. No amendment or variation of the provisions of this Agreement shall be binding upon any Party unless it is in writing executed by the Parties.

7.7 **Assignment of this Agreement**. Prior to Farmor's written acknowledgement that the Carry has been fully exhausted (including a right to audit Farmee's accounting under the Accounting Procedures), any attempted assignment or transfer of any rights, titles or interests by Farmee of this Agreement or the any Transaction Document shall be void, and

upon such an attempt, Farmor may, as a cumulative remedy, terminate this Agreement without liability to or recourse by Farmee. Once the contemplated acknowledgment is delivered, then subject to the other terms of this Agreement (including the Tag-Along), Farmee may freely assign and transfer its rights under this Agreement and the Transaction Documents; provided that any transfer of operatorship of any of the Subject Properties is subject a consent right of Farmor in its reasonable discretion. Farmor may assign or transfer its rights and interests hereunder at any time.

7.8 **Severability**. If any provision of this Agreement is deemed or determined to be void, voidable or unenforceable, in whole or in part, it shall be deemed not to affect or impair the validity of any other provision of this Agreement and such void, voidable or unenforceable provision shall be severable from this Agreement.

7.9 **Addresses for Service**. Any notice, demand or communication required or permitted to be given by any provision of this Agreement will be in writing and will be deemed to have been given and received when delivered personally, or on the date of delivery when delivered prior to 5:00 p.m. local time on a business day by scanned email to the Party designated to receive such notice, otherwise on the next succeeding business day, or on the day following the day sent by overnight courier, or on the third business day after the same if sent by certified mail, postage and charges prepaid, directed to the following addresses or to such other or additional addresses as any Party might designate by written notice to the other Party:

Farmor: 112 E. Pecan Street, Suite 1800
San Antonio, Texas 78205
DWilliamson@dykema.com

Attention: Deborah D. Williamson

Farmee: 5900 Balcones Drive, Suite 100
Austin, Texas 78731
duriverfront@gmail.com

Attention: David Underwood

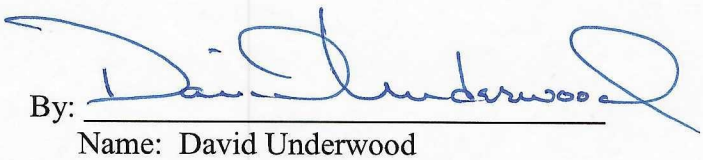
Either Party may, upon written notice to the other Party, change the addresses and persons to whom such communications are to be directed.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the Parties hereto have executed this Agreement effective as of the date first written above.

FARMEE:

SDMB Resources LLC

By: 

Name: David Underwood
Title: Manager

FARMOR:

Receivership of the Estates of Heartland Group Ventures, LLC, et al, Civil No. 4:21-CV-01310-O, United States District Court for the Northern Division of Texas, Fort Worth Division

By: _____

Name: Deborah D. Williamson
Title: Court-Appointed Receiver

SCHEDULE "A" attached to and forming part of Farmout Agreement dated as of the 14th day of December, 2022 between The Heartland Group Ventures, LLC as Farmor and SDMB Resources LLC as Farmee.

Leases

1. Oil and Gas Lease and Supplemental Agreement by and between I. W. Carson LLC, as Lessor, and Deadwood Cattle Co., LLC, as Lessee, dated December 31, 2018, a memorandum of which recorded as Document No. 00311551, Official Public Records of Val Verde County, Texas, as amended by Amendment to Oil and Gas Lease dated March 14, 2019, recorded as Document No. 00312441, Official Public Records, of Val Verde County, Texas, and as extended by Amendment recorded as Document No. 00332401, Second Amendment recorded as Document No. 00334020, Third Amendment recorded as Document No. 00336098 and Fourth Amendment recorded as Document No. 0033_____, covering those certain lands totaling 1,140 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease (the "Carson Lease");

2. Oil and Gas Lease and Supplemental Agreement dated May 8, 2020, recorded as Document No. 00320877, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,072.25 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease;

3. Oil and Gas Lease and Supplemental Agreement dated December 31, 2020, recorded as Document No. 00324936, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,190.15 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease; and

4. Oil and Gas Lease and Supplemental Agreement dated June 30, 2021, a memorandum of which recorded as Document No. 00328728, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,048.70 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease.

5. Oil and Gas Lease and Supplemental Agreement dated September 24, 2020, a memorandum of which is recorded in Volume 889, Page 546, Official Public Records of Crockett County, Texas, by and between Petro Childress, LLC, et al, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 1,000 acres, more or less, in Crockett County, Texas, more particularly described in said Lease.

6. Oil and Gas Lease dated effective as of October 1, 2020, between Robert West Simons, individually and as Attorney in Fact for Edwin M. Simons, Jr., Robert M. West, III, Margo

Chrisann West and Rebekah Simons West (undivided 1/5 interest each), as Lessor, and Barron Petroleum LLC, as Lessee, covering 6,174.90 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease, and covering all rights as to depths below 1,500 feet.

SCHEDULE "B" attached to and forming part of Farmout Agreement dated as of the 14th day of December, 2022 between The Heartland Group, Ventures, LLC as Farmor and SDMB Resources LLC Farmee.

Wells

Carson Lease (Val Verde County, Texas)

Sahota Carson 20BU #1 Well—API 46530878

Sahota Carson 19BU #3 Well—API 46530879

Childress Lease (Crockett County, Texas)

Sahota #4 Well—API 10542489

Sahota #5 Well—API 10542490

Sahota #6 Well—API 10542491

Sahota #7 Well—API 10542492

Sahota #8 Well—API 10542493

Sahota #9 Well—API 10542494

Sahota #12 Well-API 10542497

Sahota #13 Well-API 10542498

Sahota #14 Well-API 10542499

SCHEDULE "C" attached to and forming part of Farmout Agreement dated as of the 14th day of December, 2022 between The Heartland Group, Ventures, LLC as Farmor and SDMB Resources LLC Farmee.

Pipeline Easements

1. Surface Use and Right of Way Agreement from Joe S. Pierce, V, to Barron Petroleum, LLC, dated April 13, 2021, recorded in Volume 896, Page 408, Official Public Records of Crockett County, Texas.

2. Surface Use and Right of Way Agreement from Bill Cole Ranches Ltd., to Barron Petroleum, LLC, dated January 19, 2021, recorded in Volume 893, Page 87, Official Public Records of Crockett County, Texas, and as Document No. 325208, Official Public Records of Val Verde County, Texas.

3. All pipeline easements on or through the lands subject to the Leases set forth in Schedule A.

SCHEDULE "D" attached to and forming part of Farmout Agreement dated as of the 14th day of December, 2022 between The Heartland Group Ventures, LLC as Farmor and SDMB Resources LLC Farmee.

Accounting Procedure

See attached.

SCHEDULE "E" attached to and forming part of Farmout Agreement dated as of the 14th day of December, 2022 between The Heartland Group Ventures, LLC as Farmor and SDMB Resources LLC as Farmee.

Assignment

See attached.

ASSIGNMENT OF OIL AND GAS LEASE

STATE OF TEXAS KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF VAL VERDE

THAT, subject to the terms, reservations and conditions hereinafter set forth, **DEBORAH D. WILLIAMSON SOLELY IN HER CAPACITY AS COURT APPOINTED RECEIVER FOR THE ESTATES OF HEARTLAND GROUP VENTURES, LLC *ET AL*, CIVIL NO. 4:21-CV-01310-O, UNITED STATES DISTRICT COURT FOR THE NORTHERN DIVISION OF TEXAS, FORT WORTH DIVISION**, (hereinafter referred to as "Assignor"), for and in consideration of One Hundred and No/100 Dollars ($100.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, does hereby GRANT, BARGAIN, SELL, CONVEY and ASSIGN unto **SDMB RESOURCES LLC** ("Assignee") part of Assignor's right, title and interest, as further specified in that certain Farmout Agreement dated December 14, 2022 between Assignor and Assignee (the "Farmout Agreement"), in and to the oil and gas leases described in Exhibit "A" attached hereto and made a part hereof for all purposes (hereinafter referred to as the "Leases"), insofar as the Leases cover and relate to the lands described in said Leases to the extent held (the "Lands"), in and to the wells described in Exhibit "B" attached hereto and made a part hereof for all purposes (hereinafter referred to as the "Wells"), and in and to the pipeline easements described in Exhibit "C" attached hereto and made a part hereof for all purposes (hereinafter referred to as the "Pipelines"). The working interest in the Leases, Wells and Pipelines upon delivery of this Assignment shall be owned and held as follows: (i) 50% to Assignee (the "Working Interest"), with the remaining 50% belonging to Assignor.

Assignee expressly assumes all of the obligations under the Leases, whether express or implied, as to the interests conveyed hereby.

Assignee shall keep Assignor apprised by quarterly written statement of all wells drilled or being drilled by Assignee located on the Leases or on lands pooled therewith, the producing status of all such wells and current production information for all producing wells. Assignee shall, promptly after same is prepared or received by Assignee, deliver to Assignor copies of permits to drill, daily drilling reports, well history reports, rework reports, and reports on production of each well drilled by or on behalf of Assignee or in which Assignee has a present or reversionary interest in the Leases or lands pooled therewith. Assignee shall promptly furnish Assignor copies of all logs, including electrical surveys, mud logs, core analysis, and reports on drill stem tests for each well referred to in this paragraph. All information required herein shall be furnished by Assignee to Assignor, free of all costs or charges to Assignor, upon its availability to Assignee or its agents. The duration of the assigned Working Interest is subject to Section 3.4 of the Farmout Agreement.

Assignee shall indemnify and defend Assignor from and against any plugging, replugging, abandonment, removal, disposal and restoration liabilities and obligations associated with Assignee's operations on the Leases. Such obligations and liabilities shall include, but not be limited to, all necessary and proper plugging and abandonment and/or removal and disposal of any wells drilled by Assignee, and all structures and equipment located on or associated with any wells drilled by Assignee, the necessary and proper capping and burying of all associated flow lines, and any necessary disposal of naturally occurring radioactive material or asbestos associated with Assignee's operations on the Leases. Assignee shall ensure that all plugging, replugging, abandonment, removal, disposal and restoration operations shall be in compliance with applicable laws and regulations and conducted in a good and workmanlike manner.

Assignor and Assignee shall indemnify each other as set forth in section 6.2 of the Farmout Agreement.

Assignor agrees to warrant and forever defend title to the Leases but only by, through and under Assignor, but not otherwise and with full substitution and subrogation in favor of Assignee to all covenants and warranties by others heretofore given or made in Assignor's chain of title with respect to the Leases.

This assignment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, and all terms, provisions and reservations contained in this Assignment shall be deemed as covenants running with the land.

This assignment is further subject to the terms and provisions of the Farmout Agreement containing certain obligations and covenants between Assignor and Assignee which shall not be merged into this assignment, or otherwise be negated by the execution and delivery of this assignment and which shall survive the execution and delivery of this assignment (subject to the terms set forth therein).

EXECUTED AND EFFECTIVE this 14th day of December, 2022 (the "Effective Date").

[*Signatures continue on the following page*]

ASSIGNOR:

RECEIVERSHIP OF THE ESTATES OF HEARTLAND GROUP VENTURES, LLC, et al, CIVIL NO. 4:21-CV-01310-O, UNITED STATES DISTRICT COURT FOR THE NORTHERN DIVISION OF TEXAS, FORT WORTH DIVISION

By: _____
Name: Deborah D. Williamson
Title: Court-Appointed Receiver

112 E. Pecan Street, Suite 1800
San Antonio, Texas 78205-1521

STATE OF TEXAS

COUNTY OF VAL VERDE

On this ____ day of _____, 2022, before me the undersigned authority personally appeared _____, whose genuine signature is affixed to the foregoing document as _____ of _____ _____, and who acknowledged, in my presence, that he signed the above and foregoing document as his own free act and deed on behalf of said _____ acting and as the free act and deed of such _____ and for the uses and purposes therein set forth and apparent.

I have hereto set my hand and official seal this _____ day of _____, 2022.

_____
Notary Public in and for
the State of Texas

ASSIGNEE:

SDMB RESOURCES LLC

By: _____
Name: David Underwood
Title: Manager

5900 Balcones Drive, Suite 100
Austin, Texas 78731

STATE OF TEXAS

COUNTY OF VAL VERDE

On this ____ day of _____, 2022, before me the undersigned authority personally appeared _____, whose genuine signature is affixed to the foregoing document as _____ of _____ _____, and who acknowledged, in my presence, that he signed the above and foregoing document as his own free act and deed on behalf of said _____ acting and as the free act and deed of such _____ and for the uses and purposes therein set forth and apparent.

I have hereto set my hand and official seal this _____ day of _____, 2022.

_____
Notary Public in and for
the State of Texas

EXHIBIT "A"
Attached to and made a part of Assignment, Conveyance and Bill of Sale effective _____, 2022

The Carson Lease

1. Oil and Gas Lease and Supplemental Agreement by and between I. W. Carson LLC, as Lessor, and Deadwood Cattle Co., LLC, as Lessee, dated December 31, 2018, a memorandum of which recorded as Document No. 00311551, Official Public Records of Val Verde County, Texas, as amended by Amendment to Oil and Gas Lease dated March 14, 2019, recorded as Document No. 00312441, Official Public Records, of Val Verde County, Texas, and as extended by Amendment recorded as Document No. 00332401, Second Amendment recorded as Document No. 00334020, Third Amendment recorded as Document No. 00336098 and Fourth Amendment that has yet to be recorded, covering those certain lands totaling 1,140 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease;

2. Oil and Gas Lease and Supplemental Agreement dated May 8, 2020, a memorandum of which recorded as Document No. 00320879, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,072.25 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease;

3. Oil and Gas Lease and Supplemental Agreement dated December 31, 2020, a memorandum of which recorded as Document No. 00324934, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,190.15 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease; and

4. Oil and Gas Lease and Supplemental Agreement dated June 30, 2021, a memorandum of which recorded as Document No. 00328728, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,048.70 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease.

The Childress Lease

1. Oil and Gas Lease and Supplemental Agreement dated September 24, 2020, a memorandum of which recorded in Volume 889, Page 546, Official Public Records of Crockett County, Texas, by and between Petro Childress LLC, et al, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 1,000.00 acres, more or less, in Crockett County, Texas, more particularly described in said Lease.

The West Lease

1. Oil and Gas Lease dated effective as of October 1, 2020, between Robert West Simons, individually and as Attorney in Fact for Edwin M. Simons, Jr., Robert M. West, III, Margo Chrisann West and Rebekah Simons West (undivided 1/5 interest each), as Lessor, and Barron Petroleum LLC, as Lessee, covering 6,174.90 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease, and covering all rights as to depths below 1,500 feet.

EXHIBIT "B"

Wells

Carson Lease:

Sahota Carson 20BU #1 Well – API 46530878

Sahota Carson 19BU #3 Well – API 46530879

Childress Lease:

Sahota #4 Well – API 10542489

Sahota #5 Well—API 10542490

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Sahota #8 Well—API 10542493

Sahota #9 Well—API 10542494

Sahota #12 Well-API 10542497

Sahota #13 Well-API 10542498

Sahota #14 Well-API 10542499

EXHIBIT "C"

Pipelines

1. Surface Use and Right of Way Agreement from Joe S. Pierce, V, to Barron Petroleum, LLC, dated April 13, 2021, recorded in Volume 896, Page 408, Official Public Records of Crockett County, Texas.

2. Surface Use and Right of Way Agreement from Bill Cole Ranches Ltd., to Barron Petroleum, LLC, dated January 19, 2021, recorded in Volume 893, Page 87, Official Public Records of Crockett County, Texas, and as Document No. 325208, Official Public Records of Val Verde County, Texas.

3. All pipeline easements on or through the lands subject to the Leases set forth in Exhibit "A".

SCHEDULE "F" attached to and forming part of Farmout Agreement dated as of the 14th day of December, 2022 between The Heartland Group Ventures, LLC as Farmor and SDMB Resources LLC as Farmee.

Joint Operating Agreement

See attached.

A.A.P.L FORM 610 – 1989

OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

December __, 2022

OPERATOR: SDMB Resources LLC as Contract Operator

CONTRACT AREA: As Described on Exhibit "A" hereto

COUNTIES OF Val Verde and Crockett, STATE OF TEXAS

AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD.
FORT WORTH, TEXAS, 76137, APPROVED FORM.
A.A.P.L. NO. 610 - 1989

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A.A.P.L. FORM 610 – MODEL FORM OPERATING AGREEMENT – 1989

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between **SDMB RESOURCES LLC** hereinafter designated and referred to as "Operator," and the signatory party other than Operator, individually known as "Non-Operator" and together as "Parties".

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 "Non-Operator" desires 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 by designating "Operator",

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

A. The term "AFE" shall mean an Authority for Expenditure prepared by Operator and approved by Non Operators for the purpose of estimating the costs to be incurred in conducting an operation hereunder.

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

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

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser.

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

F. The term "Drilling Unit" shall mean the minimum spacing unit established by the Railroad Commission for the drilling of one well. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.

G. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located. It shall also mean the location of any pre-existing well within the Contract Area for which downhole operations are proposed.

H. Intentionally Omitted

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

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

K. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or 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.

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

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

N. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone.

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

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

Q. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or to drill around junk in the hole to overcome other mechanical difficulties.

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

S. The term "Drilling Rig" shall include but not be limited to drilling, work over and or coiled tubing rigs.

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

ARTICLE II.
EXHIBITS

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

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

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

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

(5) Oil and Gas Leases, wells and/or Oil and Gas Interests subject to this agreement,

(6) Burdens on production.

__X__ B. Exhibit "B," Accounting Procedure.

__X__ C. Exhibit "C," Insurance.

If any provision of any exhibit is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement (including Art. XVI hereof) shall prevail.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

"Non-Operator" owns an Oil and Gas Interests in the Contract Area. Those Interests shall be treated for all purposes of this agreement and during the term hereof

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 Non-Operators as their interests are set forth in Exhibit "A." In the same manner, Non-Operators shall also own all production of Oil and Gas from the Contract Area subject, however, to the payment of royalties, compensation of expenses and fees of Operator and other burdens on production as described hereafter. Non-Operator and Operator have agreed that all operational (LOE), legal, lease management and regulatory expenses will be deducted from oil and gas revenue, unless and until such revenue does not fully satisfy the Operating Fee (as defined in Art. XVI below), in which event Non-Operators shall fully and promptly after invoicing reimburse Operator for the difference. Non-Operator retains all previous, current and future P & A and remediation liabilities associated with leases listed in Exhibit "A" and all wells and facilities located thereupon, and shall pay for or compensate any out-of-pocket expense associated with above listed liabilities incurred by Operator.

Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area up to, but not in excess of, ***Lessor's Royalty Burden plus all royalty and similar burdens of record or disclosed to any party hereto***, and shall indemnify, defend and hold the other party free from any liability therefore. Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefore.

No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if 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, and in the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in said leaseholds shall be deemed separate leasehold interests for the purposes of this agreement.

C. Subsequently Created Interests:

If any party has contributed hereto a Lease or Interest that is burdened with an assignment of production given as security for the payment of money, or if, after the date of this agreement, any party creates an overriding royalty, production payment, net profits interest, assignment of production or other burden payable out of production attributable to its working interest hereunder and does not appear of record in the records of the county in which the contract area is located prior to the execution of this Agreement, such burden shall be deemed a "Subsequently Created Interest." Further, if any party has contributed hereto a Lease or Interest burdened with an overriding royalty, production payment, net profits interest, or other burden payable out of production created prior to the date of this agreement, and such burden is not shown on Exhibit "A," such burden also shall be deemed a Subsequently Created Interest to the extent such burden causes the burdens on such party's Lease or Interest to exceed the amount stipulated in Article III.B. above.

The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and alone bear, pay and discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other parties from and against any liability therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VI1.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. 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, defend and hold harmless said other party, or parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.

ARTICLE IV.
TITLES

A. Title Examination:

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

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations and communitization agreements as well as the conduct of bearings before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys,

which are associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."

Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions. No well shall be drilled on the Contract Area until AFE has been approved by Non Operators, nor shall Operator be required to drill any new well thereupon (in which case Operator and Non-Operators shall be subject to Section VI(2)(B)(2) below as though Operator was a Non-Consenting Party). If Operator agrees to new drilling or other downhole operations for any well, it shall have no liability therefor absent gross negligence or willful misconduct, and Non-Operators (if they elect to utilize Operator for such operations in the discretion of the Consenting Parties) shall release, defend and indemnify Operator in all respects of such Operations (but only to the extent of claims not covered by insurance as provided for herein).

B. Loss or Failure of Title:

~~1. Failure of Title: Should any Oil a d Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A" the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title – failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject – to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas – Leases and Interests; and,~~

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

~~(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the Lease or Interest which has failed, but the interests of the parties contained on Exhibit "A" shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose Lease or Interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the Lease or Interest failed,~~

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

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

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

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

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

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

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

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

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

3. ALL Losses: All losses incurred of Leases, Title, or Interests committed to this agreement, shall be joint losses and shall be borne by all parties in proportion to their interests Shown on Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because Express or implied covenants have not been performed (other than performance which requires only the payment of money), and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.

~~4. Curing Title: In the event of a Failure of Title under Article IV.B.1. or a loss of title under Article IV.B.2. above, any Lease or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period provided by Article IV.B.1. and Article IV.B.2. above covering all or a portion of the interest that has failed or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of~~
Article VII1.B. shall not apply to such acquisition.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

SDMB Resources LLC, shall be the Contract 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. In its performance of services hereunder for the Non-Operator, Operator shall be an independent contractor not subject to the control or direction of the Non-Operator except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operator with authority to bind them to any obligation or liability incurred by Operator as to any third party (other than services and materials/equipment vendors serving the Contract Area). Operator shall conduct its activities all such operations under this agreement as a reasonable prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct. Operator shall have no liability or obligation to Non-Operators for reliance upon information provided or caused to be provided by Non-Operators (including data and information transferred from or by prior operators of the wells and facilities in the Contract Area or their outsourced vendors/consultants). Operator has no duty hereunder or otherwise to Non-Operators to perform remedial or other *post-hoc* review of the actions or omissions of any prior operator of the Contract Area or the wells/facilities located thereupon, it being intended by the Parties that Operator shall have no liability for acts or omissions of any other person or party with regard to the Contract Area or the wells and facilities located thereupon. Non-Operators shall release, defend and indemnify Operator from and against any and claims and liabilities asserted or accrued against Operator in respect of any of the foregoing sentences of this Subsection (A), ***INCLUDING THOSE BASED ON OPERATOR'S SOLE OR COMPARATIVE NEGLIGENCE OR FAULT, BUT EXCLUDING CLAIMS AND LIABILITIES CONSTITUTING A BREACH OF OR DEFAULT UNDER THIS AGREEMENT***.

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

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operator, and if such occurs, Non-Operators shall appoint a replacement operator for all of the wells and facilities on the Contract Area and shall cause Railroad Commission Form P-4's or T-'s (as applicable) to be filed promptly with the Commission evidencing same (and Non-Operators shall cooperate in all reasonable ways to accomplish same, to the end that Operator is relieved of regulatory liability for the wells and facilities on the Contract Area). If Operator terminates its legal existence or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operator, except the selection of a successor. Operator may be removed for any reason by Non-Operator in 90 (Ninety) days from delivering to Operator a notice of removal. Subject to Article VII.D.l., such resignation or removal shall not become effective until 7:OO 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-Operator 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 under any provision of this agreement, a successor Operator shall be selected by Non-Operator. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

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

C. Employees and Contractors:

The number of employees or contractors 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 or contractors shall be the employees or contractors of Operator.

D. Rights and Duties of Operator:

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

2. Discharge of Joint Account Obligations: Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall

charge Non-Operator with its respective proportionate shares. Operator shall keep accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

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

4. Custody of Funds: Operator shall hold for the account of Non-Operator any funds of Non-Operator advanced or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the Contract Area, and such funds shall remain the funds of the Non-Operator on whose account they are advanced or paid until used for their intended purpose or otherwise delivered to the Non-Operator or applied toward the payment of debts as provided in Article V1I.B. Nothing in this paragraph shall be construed to establish a fiduciary relationship between Operator and Non-Operator for any purpose other than to account for Non-Operator funds as herein specifically provided. Nothing in this paragraph shall require the maintenance by Operator of separate accounts for the funds of Non-Operator unless the parties otherwise specifically agree.

5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any and all reports and information obtained by Operator in connection with production and related items, including, without limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures shall be conducted in accordance with the audit protocol specified in Exhibit "C", except that the period covered by any given audit shall be one year preceding the month in which the audit is commenced.

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

7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder:

(a) Operator will promptly advise Non-Operator of the date on which the well is spudded, or the date on which drilling operations are commenced.

(b) Operator will send to Non-Operator such reports, test results and notices regarding the progress of operations on the well as the Non-Operators shall reasonably request, including, but not limited to, daily drilling reports, completion reports, and well logs.

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

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

9. Insurance: At all times while operations are conducted hereunder, Operator shall comply with the workers compensation law of the state where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D" attached hereto and made a part hereof. All charges and expenses for same (including deductibles and retentions shall be solely for the account of the Non-Operators (but subject to payment and satisfaction under the Farmout Agreement incorporated herein. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require, and to obtain substantially similar insurance coverage (type and limits) as is required of Operator hereunder) prior to entering upon the Contract Area for work or equipment delivery or pickup, or hauling of any type.

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Wells: No well may be drilled, Reworked, Sidetracked, Recompleted, Plugged Back or Deepened on the Contract Area except in accordance with the terms of that certain Farmout Agreement of even date herewith between the parties (the Farmout Agreement). Until the existing wells drilled on the Contract Area have been determined by reasonable procedures and engineering standards to be productive or unproductive, no new well may be drilled on the Contract Area absent consent of all parties hereto.

B. Subsequent Operations: (Operator may not propose any operations under this Art. VI)

1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Wells, or if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to the parties who have not otherwise relinquished their interest in such object Zone under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by email (but only using a sender's "Read Receipt" function), and the response period shall be limited to Twenty-four (24) hours, inclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to

participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be contractually committed to participate therein provided such operations are commenced within the time period hereafter set forth, and Operator shall, no later than ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the twenty-four (24) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and thereafter complete it with due diligence at the risk and expense of the parties participating therein; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to sixty (60) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of- way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior proposal had been made. Those parties that did not participate in the drilling of a well for which a proposal to Deepen or Sidetrack is made hereunder shall, if such parties desire to participate in the proposed Deepening or Sidetracking operation, reimburse the Drilling Parties in accordance with Article VI.B.4. in the event of a Deepening operation and in accordance with Article VI.B.5. in the event of a Sidetracking operation.

2. Operations by Less Than All Parties:

(a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.l. or VI.C.l. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the twenty-four (24) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

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

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) 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, Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,
Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective 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 applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted by Article III.C. 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 (but subject in every case to the Farmout Agreement):

(i) 150% 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 500%

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

(ii) 300% of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) 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.

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

(c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or 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 amount. Similarly, an election not to participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking 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 amount. Any such Reworking, Recompleting 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 300% of that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is proposed during such recoupment period, the provisions of this Article V1.B. shall be applicable as between said Consenting Parties in said well.

(d) Recoupment Matters. 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 ad valorem, 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.C.

In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening 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, Sidetracking, Plugging Back, Recompleting or Deepening, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within ninety (90) 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, Sidetracking, Deepening, Plugging Back, testing, Completing, Recompleting, 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 quarterly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interests 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.

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

3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

In the event that notice for a Sidetracking and/or Deepening operation is given while the drilling rig to be utilized is on location, any party may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in Article VI.B.l. within which to respond by paying for all stand-by costs and other costs incurred during such extended

response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.

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

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

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

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

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

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

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

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

6. Order of Preference of Operations. Except as otherwise specifically provided in Article XVI.B. of this agreement, if any party desires to propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty-four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within such period shall be deemed an election not to participate in the prevailing proposal.

7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be proposed to be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such Zone or such well has been approved as an exception to the then existing spacing pattern for such zone by the appropriate regulatory agency.

8. Paying Wells. No party (including the Operator) shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or Sidetracking operation under this agreement with respect to any well then capable of producing in paying quantities except with the consent of all parties that have not relinquished interests in the well at the time of such operation.

C. Completion of Wells; Reworking and Plugging Back:

1. Completion: Without the consent of Non-Operator and approved AFEs, no well shall be drilled, Deepened or Sidetracked. except any well drilled, Deepened or Sidetracked pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling, Deepening or Sidetracking shall include:

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

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

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

D. Other Operations:

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twentyfive Thousand ($25,000.00) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Twenty Five Thousand ($ 25,000.00). An AFE is an estimate only of costs and in no way shall the execution of an AFE limit the liability of any party. Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.l. or VI.C.l. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 51% of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of Non-Operator. Should Operator, after diligent effort, be unable to contact Non-Operator, or should any Non-Operator fail to reply within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposal to plug and abandon such well, it shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to plugging and abandoning such well by notice delivered to Operator within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such twenty-four (24) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party taking over the well shall indemnify. Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operation conducted on such well except for the costs of plugging and abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.

2. Abandonment of Wells That Have Produced: Any well which has been completed as a producer shall not be plugged and abandoned without the consent of Non-Operator. If Non-Operator consents to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of Non-Operator. Failure of a Non-Operator to reply within thirty (30) days of delivery of notice of proposed abandonment (which may be proposed by the Operator if Operator reasonably believes that Operator's standing before or bond to the Railroad Commission is exposed to risk by not so abandoning the well or facility(ies) shall be deemed an election to consent to the proposal. If, within thirty (30) days after delivery of notice of the proposed abandonment of any well, Non-Operator does not agree to the abandonment of such well, those wishing to continue its operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well within the required period or thereafter to conduct operations on such well shall entitle Operator to retain or take possession of such well and plug and abandon the well. The foregoing Subsection (2) shall also apply to gathering and flow lines of all types once the piping has been used to serve the Contract Area but is no longer serving producing wells.

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

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article. At its election, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

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

F. Termination of Operations:

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

G. Taking Production in Kind:

If the Operator fails to make arrangements for the marketing and sale of Oil and Gas, then any Non-Operator shall have the right to take in kind or separately dispose of its proportionate share of all Oil and Gas from Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for only its proportionate s Operator's surface facilities which it uses.

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

Operator shall have the right, but not the obligation, to purchase such Oil and/or Gas or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least thirty (30) days written notice to the owner of said production Any purchase or sale by Operator of any other party's share of Oil and/or Gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The Farmout Agreement governs the obligation and liability of the Parties until such time as the "Carry" (defined therein) is exhausted, then this Article VII shall govern that subject matter. The liability of the parties shall be several and not joint or collective. Except as to obligations owed to Operator hereunder, each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally, and no party-shall have any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation hereunder. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other with respect to activities hereunder.

B. Liens and Security Interests:

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

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

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

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

If any party fails to pay its share of cost within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in Article VII.B., and each paying party may independently pursue any remedy available hereunder or otherwise.

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

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

C. Advances:

Operator, at its election, shall have the right from time to time to demand and receive from Non-Operator payments in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next

succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Non-Operator shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If Non-Operator fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C' until paid. Proper adjustment shall be made monthly between advances and actual that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Defaults and Remedies:

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

1. Suspension of Rights: Upon request by any party, Operator will deliver to the party in default a Notice of Default, which shall specify the default, specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or more of the remedies provided in this Article. If the default is not cured within ten (100) days of the delivery of such Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the Non-Operators shall have in addition the right, by vote of two or more Non-Operators owning a majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to elect to participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being conducted under this agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of production from any well subject to this agreement.

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

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

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

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

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

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

Operator shall be solely responsible for payment of all delay or drilling deferment rentals, shut-in payments, 60) days' proportionate share of the total amount due prior to the date any such payment becomes due, Operator shall so notify Non-Operator with full information as to the category of payment, the total amount due, the lease or leases affected and the date such payment is due. Non-Operator shall have a period of thirty (30) days after receipt of such notice within which to affirmatively elect to make such payment by tendering notice thereof to Operator accompanied by proportionate share of the total amount due. Failure by Non-Operator to deliver such notice and payment to Operator within said thirty (30) day period shall be conclusively deemed an election by Non-Operator not to make such payment and thereby relinquish its interest in such lease or leases. In the event a Party shall elect, or be deemed to have elected, not to make such payment, such non-paying Party shall thereupon forfeit, release and relinquish to the Parties properly electing to make such payment, all of such non-paying Party's rights, titles and interests in the lease or leases which are the subject of such notice, free and clear of any liens or encumbrances whatsoever except the lessor's royalty and burdens set forth in Exhibit "A". The non-paying Party shall, promptly upon request, execute an assignment of such leasehold interest to the Parties making such payment in proportion to the respective payments.

Operator shall have no liability whatsoever to Non-Operator in the event it shall fail to pay, or improperly pays, any rental or other required payment. Any loss which results from the non-payment shall be borne in accordance with the provisions of Article IV.B .2. (Title; Loss or Failure of Title; Loss by Non-Payment or Erroneous Payment of Amount Due.)

Operator shall notify Non-Operator of the anticipated completion of a shut-in well, or the shutting in or return to production of a producing well, at least five (5) days (inclusive of Saturday, Sunday and legal holidays) prior to taking such action, or at the earliest opportunity permitted by circumstances, but assumes no liability for failure to do so.

In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operators for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole-or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein; charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated working interest. Operator shall bill the other parties for their proportionate shares of all tax payments.

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

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

ARTICLE VIII.
ACQUISITION, MAJNTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

~~The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless consent thereto; however, no consent shall be necessary to release a lease which has expired or otherwise terminated.~~

~~However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such Lease, or portion thereof, and any well material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or party not consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced in commercial quantities from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned shall similarly reflect such variances.~~

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

~~B. Renewal or Extension of Leases:~~

~~If any party secures a renewal or replacement of an Oil and Gas Lease or Interest subject to this agreement, then all other parties shall be notified promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease, promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of fifteen (15) days following delivery of such notice in which to elect to participate in the ownership of the renewal or replacement Lease, insofar as such Lease affects lands within the Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost allocated to that part of such Lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area. Each party who participates in the purchase of a renewal or replacement Lease shall be given an assignment of its proportionate interest therein by the acquiring party.~~

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

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

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

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

C. Acreage or Cash Contributions:

~~While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled inside the Contract Area.~~

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

D. Assignment; Maintenance of Uniform Interest:

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

1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or

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

Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and Gas Lease or Interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party hereunder with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted hereunder in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations.

If, at any time the interest of any party is divided among and owned by three or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the Oil and Gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

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

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

~~☐ (Optional; Check if applicable.)~~

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G' or other agreement between them, each party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulations §1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located

or any future income tax laws of the United States contain provisions similar to those in Subchapter "K' Chapter 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income. The parties elect to use the cumulative method to account for the tax consequences of gas balancing in accordance with Section 1,761-2 of the Internal Revenue Service Regulations.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the does not exceed _Five Thousand_ Dollars ($_5,000.00_) 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 suite shall be treated as any other claim or suit involving Operations hereunder.

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 indemnify or make money payments or furnish security, 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 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 or other act of nature, 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.

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.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically provided, shall be in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopier or any other form of facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices permitted by this agreement shall be confirmed immediately thereafter by written notice. The originating notice given under any provision hereof shall be deemed delivered only when received by the party to whom such notice is directed, and the time for such party to deliver any notice in response thereto shall run from the date the originating notice is received. "Receipt" for purposes of this agreement with respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified specified in accordance with this agreement, or to the telecopy, facsimile or telex machine of such party. The second or any responsive notice shall be deemed delivered when deposited in the United States mail or at the office of the courier or telegraph service, or upon transmittal by telex, telecopy or facsimile, or when personally delivered to the party to be notified, provided, that when response is required within 24 or 48 hours, such response shall be given orally or by telephone, electronic mail, by telex, telecopy or other facsimile within such period. 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. If a party is not available to receive notice orally or by telephone when a party attempts to deliver a notice required to be delivered within 24 or 48 hours, the notice may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for any responsive notice.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect until the earlier of the date; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

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

☐ ~~Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of _____90_____ days thereafter; provided, however, if, prior to the expiration of such additional period of additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-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 capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within _____90_____ days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to~~

~~conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.~~

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the applicable laws of the state in which the Contract Area is located, to the 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 of Texas. Venue for any dispute hereunder shall lie exclusively in the United States District Court for the Northern District of Texas – Fort Worth Division.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release rights, privileges, or obligations which Non-Operator 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 the operations hereunder, Non-Operator agrees 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 Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to 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.

ARTICLE XV.
MISCELLANEOUS

A. Execution:

This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area.

B. Successors and Assigns:

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the Contract Area. Operator may not assign its rights or obligations hereunder, but may provide the services contemplated by the parties through one or more of Operator's affiliate companies. Upon resignation or removal of Operator hereunder, Operator shall thereafter have no liability to any person or entity except to those matters first arising or accruing during Operator's tenure hereunder, and that liability shall terminate as to Operator upon its resignation or removal unless one or more Non-Operator objects in writing and provides reasonable support for any assertion that Operator should have continuing liability to Non-Operators pursuant to the terms and provisions of this agreement within 30 days of the date resignation or removal becomes effective.

C. Counterparts:

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

D. Severability:

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

ARTICLE XVI.
OTHER PROVISIONS

[See attached]

ARTICLE XVI

A. Conflicts: In the event of a conflict between the terms and provisions of this Article XVI and the preceding Articles above, this Article XVI shall govern and control the rights and obligations of Operator and Non-Operator(s), but only to the extent of such conflict. The Farmout Agreement governs and controls over this entire agreement.

B. Payments to Lessors and Royalty Owners: All rentals, shut - in well payments and minimum royalties which may be required under the terms of any lease shall be administered and paid by Operator, and charged to Non-Operator's account (subject to the Farmout Agreement). Non-Operator may request and shall be entitled to proper evidence of all such payments.

C. No Advances: Operator may not require Receiver, as that term is defined in the Farmout, but not any successors or assigns of Receiver or Receiver's interests in the Wells or the Contract Area, to advance or prepay costs or expenses associated with operating the Contract Area. Operator shall be entitled to recoup, net and set off from Receiver or Non-Operator's share of production revenue amounts owed to Operator hereunder, including under the COPAS accounting procedures incorporated herein. Until the exhaustion of the Carry, all data, books and records regarding the Contract Area shall at all times be considered the proprietary property of Non-Operator.

D. Marketing of Production: Non-Operator may at any time and from time to time choose to take its production form the Contract Area in-kind and market it as it so chooses. However, until such an election is made, Operator shall market and sell Non-Operator's production on Non-Operator's behalf. Operator shall not charge Non-Operator for commonly owned facilities. In this regard, Operator shall obtain for Non-Operator substantially the same pricing and other commercial terms as Operator obtains for its own production sales in the vicinity of the Contract Area.

E. Removal/Resignation of Operator: Non-Operator may remove Operator from that role at any time and at Non-Operator's reasonable discretion, but only for a material breach by Operator of this agreement or the Farmout Agreement. Non-Operator's only liability or obligation to Operator in this regard shall be to reimburse any charges or expenses paid by Operator for the benefit of the Contract Area and approved in accordance with this agreement prior to the effective date of Operator's removal. Operator may resign from that role hereunder by giving 90 days written notice of same to Non-Operator. In the event that Operator gives less than 90 days notice of its resignation, Operator shall thereafter become liable for any liabilities, costs or expenses incurred by Non-Operator in connection with interim operation of the Contract Area. If Operator resigns by giving the required notice, Non-Operator shall reimburse any charges or expenses paid by Operator for the benefit of the Contract Area and approved in accordance with this agreement prior to the effective date of Operator's resignation. In either the case of Operator's removal or resignation, all information, books and records regarding the Contract Area and in the possession of Operator shall continue to be the proprietary property of Non-Operator and shall be turned over to Non-Operator or the successor operator of the Contract Area, upon notice of Operator's removal or resignation being delivered, as the case may be.

F. Notice: All notices and other communications under this Agreement shall be in writing and delivered (i) personally, (ii) by registered or certified mail with postage prepaid, and return receipt requested, (iii) by nationally recognized commercial overnight courier service with charges prepaid, or (iv) by electronic mail, in each case directed to the intended recipient as follows:

If to Operator:

David Underwood
SDMB Resources LLC
5900 Balcones Drive, Suite 100
Austin, Texas 78731

If to Non-Operator:

Deborah D. Williamson Solely in Her Capacity as Court Appointed Receiver for the Estates of Heartland Group Ventures, LLC et al, Civil No. 4:21-CV-01310-O
112 E. Pecan Street, Suite 1800
San Antonio, Texas 78205
DWilliamson@dykema.com

G. Pace of Development, Priority of Operations and Well Proposal Limitations.

1. Every six months, or more frequently if necessary, the parties will conduct technical and budgetary meetings to plan a development strategy for the Contract Area for the next twelve months. Operator will organize and schedule these meetings.

1.1 It is specifically provided that no notice shall be given under Article VI hereof which proposes the drilling of more than one well. Further, the provisions of said Article VI, insofar as same pertains to notification by a party of its desire to drill a well, shall be suspended for so long as (1) a prior notice has been given which is still in force and effect and the period of time during which the well regarding same may be commenced has not expired, (2) a well is presently drilling hereunder, or (3) the period of time between the completion and commencement of production of a well and the notice of a proposed subsequent well is less than sixty (60) days. This paragraph shall not apply under those circumstances where (1) the well to which notice is directed is a well which is required under the terms of a lease or contract or one required to maintain an lease or portion thereof in force or (2) the parties hereto mutually consent to such proposal..

1.2 When a well which has been authorized under the terms of this Operating Agreement shall have been drilled to the objective depth or formation and all tests have been completed and the results thereof furnished to the participating parties, and such parties cannot agree upon the sequence and timing of further operations regarding said well, the following proposals shall control in the order enumerated hereafter:

(A) A proposal to do additional logging, coring or testing; then

(B) A proposal to attempt to complete the well at the objective depth or formation in the manner set forth in the AFE (i.e., in accordance with the casing, stimulation and other completion programs set forth in the AFE);

(C) A proposal to attempt to complete the well at the objective depth or formation in the manner different than as set forth in the AFE;

(D) A proposal to plug back and attempt to complete the well at a depth shallower than the objective depth or formation, with priority given to objectives in ascending order up hole;

(E) A proposal to deepen the well below the objective depth or formation;

(F) A proposal to sidetrack the well to a new target objective, with priority given first in ascending order to the objectives above the objective depth or formation and then to depths below the objective depth or formation.

H. If at the time the parties are considering a proposed operation, the well is in such condition in the Operator's judgment, that a reasonably prudent operator would not conduct such operation for fear of mechanical difficulties, placing the hole, equipment or personnel in danger of loss or injury or fear of loss of the well for any reason without being able to attempt a completion at the objective depth or formation, then the proposal shall be given no priority to any proposed operation except for plugging and abandoning the well.

I. Operator shall prepare and circulate for execution a Memorandum of Operating Agreement and Financing Statement for the Contract Area (in the form set out in Exhibit "I" hereto) in order to give record notice of this Operating Agreement and terms hereof, including, but not limited to, the lien granted herein. Each Non Operator shall execute such instrument upon receipt from Operator and deliver same to Operator within ten (10) days of receipt. Failure by any party to so return same shall give the Operator the right to suspend all payments under this Operating Agreement due to said party until such time as the Memorandum is received by the Operator. Once the Memorandum is executed Operator shall file same of record in each county which contributes acreage to the Contract Area.

J. Operator shall provide all well and other operations data and information to Non-Operator promptly upon request, in ordinary-course media.

K. No employee of another party shall have a significant direct or indirect financial interest in the business of any other party. No party shall pay any commissions, fees or grant any rebates to any employee or officer of another party, or favor employees or officers of another party with gifts or entertainment of significant cost or value, or enter into any business arrangements with employees or officers of another party. Any representative or representatives authorized by another party may audit any and all records relative to the work performed hereunder and all transactions related thereto, for the purpose of determining whether there has been compliance with this Article XVI.

L. The terms, provisions, covenants and conditions of this agreement shall be deemed to be covenants running with the lands, the lease or leases and leasehold estate covered hereby, and all of the terms, provisions, covenants and conditions of this agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, executors, administrators, personal representatives, successors and assigns.

M. Each party hereto shall execute the Financing Statement and Memorandum of Operating Agreement in the form attached hereto as Exhibit "F" and Operator shall cause it to be filed as a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform Commercial Code.

1. If a party should elect to proceed to foreclose the liens as against the interest of a Non-Operator having an interest in the Contract Area, or if Non-Operator should elect to proceed to foreclose the lien of Non-Operator as against the interest of Operator having an interest in the Contract Area, this operating agreement does hereby include provisions for nonjudicial sale under the laws of the State of Texas, and Raymond Walker, an attorney with the law firm of Walker Eisenbraun LLC, is hereby appointed as Trustee for such purpose. In such instance, the party initiating the foreclosure shall be called "Secured Party" and the party whose interest is foreclosed shall be called "Debtor". Upon such default, said Trustee or Secured Party shall, at least 21 days preceding the date of non-judicial sale, serve written notice of the proposed sale by certified mail on Debtor according to the records of Secured Party. Service of such notice shall be deemed completed upon deposit of a notice enclosed in a post-paid wrapper properly addressed to the Debtor and each other party obligated to pay said obligations at the most recent address or addresses as shown on the records of Secured Party in a post office or other official depository under the care and custody of the United Stated Postal Service. The affidavit of any person having knowledge of the facts to the effect that such service was completed shall be prima facie evidence of the facts of service. After such notice, said Trustee shall proceed to sell all of the interests of Debtor in the Contract Area at public auction to the highest bidder for cash after having given notice of the time and place of sale and in the manner and after the advertisement of such sale as is now required by the statutes of the State of Texas in making sales of real estate under deeds of trust. Sale of a part of the realty would not exhaust the power of sale and sales may be made from time to time until all of the property is sold or the obligations paid in full. Said Trustee shall have authority to appoint an attorney in fact to act as Trustee in conducting the foreclosure sale and executing a deed to the purchasers; and it is further agreed that said Trustee or his successor may sell said property together or in lots and/or parcels as to him shall deem expedient and after such sales as aforesaid shall make, execute and deliver to the purchaser or purchasers thereof good and sufficient deeds, assignments or other lawful conveyances to vest in said purchaser or purchasers title to the Debtor in the Contract Area in fee simple together with all personal property used or obtained in connection therewith and together with all of the proceeds of production attributable thereto including proceeds of production held by any party for the payment to Debtor. From the proceeds of said sale said Trustee shall first pay all charges, costs and expenses in executing these provisions and secondly pay any sums due by the Trustee for taxes in the preservation of the security and thereafter pay all of the remaining sums to Secured Party for the satisfaction of the debts of Debtor hereunder and the balance, if any, shall be paid to Debtor.

2. It is agreed that such sale shall be a perpetual bar against Debtor and its heirs, successors and assigns and legal representatives and all other person claiming under him, them or any of them. It is further agreed that said Trustee or any holder or holders of said obligation or Secured party shall have the right to become the purchaser or purchasers at such sale if the highest bidder or bidders in which event the bid or bids may be credited upon said indebtedness of Debtor. It is stipulated and agreed that in the case of any sale hereunder by Trustee or his successor all prerequisites of said sale shall be presumed to have been performed and any conveyance given hereunder and all statements of fact or recitals therein made as to the nonpayment of money secured or as to any default under the terms hereof or as to the request of the Trustee to enforce this trust or as to the proper and due appointment of any successor of sale or the time, place or terms of sale or as to any other preliminary act or thing shall be taken in all courts of law and equity as prima facie evidence that the facts so stated are true. Secured Party may appoint a substitute or successor Trustee in the event the Trustee above named is unable for any reason to serve.

3. Notwithstanding the other provisions of this Section L of Article XVI, if a party fails to pay part or all of its share of costs hereunder because of a legitimate disagreement as to the appropriateness of part or all of the billing in question, and if such party makes such disagreement and the grounds therefor known to the Operator in writing within thirty (30) days of its receipt of such billing and timely tenders payment of all undisputed amounts, then such party shall not be subject to the non-judicial foreclosure provisions contained herein.

IN WITNESS WHEREOF, this agreement shall be effective as of the first day of [_____], 202_. This agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes and shall be binding upon the heirs, successors and assigns of the parties. The Operator is hereby authorized to compile the signature and notary pages from each of the counterparts in order to have one instrument containing signature and notarial acknowledgments for all parties for recording purposes.

OPERATOR
SDMB RESOURCES LLC

By: David Underwood

David Underwood, Manager

Date 12-14-2022

Tax ID 88-1461732

NON-OPERATOR
Receivership of the Estates of Heartland Group Ventures, LLC, et al, Civil No. 4:21-CV-01310-O, United States District Court for the Northern Division of Texas, Fort Worth Division

By:_____

Deborah D. Williamson, Court-Appointed Receiver

Date_____

Tax ID _____

IN WITNESS WHEREOF, this agreement shall be effective as of the first day of [_____], 202_. This agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes and shall be binding upon the heirs, successors and assigns of the parties. The Operator is hereby authorized to compile the signature and notary pages from each of the counterparts in order to have one instrument containing signature and notarial acknowledgments for all parties for recording purposes.

OPERATOR
SDMB RESOURCES LLC

By:_____

David Underwood, Manager

Date_____

Tax ID _____

NON-OPERATOR
Receivership of the Estates of Heartland Group Ventures, LLC, et al, Civil No. 4:21-CV-01310-O, United States District Court for the Northern Division of Texas, Fort Worth Division

By:_____

Deborah D. Williamson, Court-Appointed Receiver

Date_____

Tax ID _____

STATE OF California)
)
COUNTY OF Los Angeles)

This instrument was acknowledged before me on the 14th day of December, 2022, by David Underwood, Manager of SDMB Resources LLC, a Texas limited liability company, on behalf of said company.

Eve Sullivan, a Notary Public

Notary Public, State of California

My commission expires:

August 28, 2022

EVE SULLIVAN
Notary Public - California
Los Angeles County
Commission # 2371240
My Comm. Expires Aug 28, 2025

STATE OF _____)
)
COUNTY OF _____)

This instrument was acknowledged before me on the _____ day of _____, 2022, by Deborah D. Williamson, Court-Appointed Receiver of the Estates of Heartland Group Ventures, LLC, et al, Civil No. 4:21-CV-01310-O, United States District Court for the Northern Division of Texas, Fort Worth Division, on behalf of said estate.

_____
Notary Public, State of _____

My commission expires:

_____

STATE OF _____)
)
COUNTY OF _____)

This instrument was acknowledged before me on the _____ day of _____, 2022, by David Underwood, Manager of SDMB Resources LLC, a Texas limited liability company, on behalf of said company.

_____
Notary Public, State of _____

My commission expires:

_____

STATE OF _____)
)
COUNTY OF _____)

This instrument was acknowledged before me on the _____ day of _____, 2022, by Deborah D. Williamson, Court-Appointed Receiver of the Estates of Heartland Group Ventures, LLC, et al, Civil No. 4:21-CV-01310-O, United States District Court for the Northern Division of Texas, Fort Worth Division, on behalf of said estate.

_____
Notary Public, State of _____

My commission expires:

_____

EXHIBIT "A"

CONTRACT AREA

A. SCHEDULE OF LEASES:

The Carson Lease

(1) Oil and Gas Lease and Supplemental Agreement by and between I. W. Carson LLC, as Lessor, and Deadwood Cattle Co., LLC, as Lessee, dated December 31, 2018, a memorandum of which recorded as Document No. 00311551, Official Public Records of Val Verde County, Texas, as amended by Amendment to Oil and Gas Lease dated March 14, 2019, recorded as Document No. 00312441, Official Public Records, of Val Verde County, Texas, and as extended by Amendment recorded as Document No. 00332401, Second Amendment recorded as Document No. 00334020, Third Amendment recorded as Document No. 00336098 and Fourth Amendment that has yet to be recorded, covering those certain lands totaling 1,140 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease;

(2) Oil and Gas Lease and Supplemental Agreement dated May 8, 2020, a memorandum of which recorded as Document No. 00320879, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,072.25 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease;

(3) Oil and Gas Lease and Supplemental Agreement dated December 31, 2020, a memorandum of which recorded as Document No. 00324934, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,190.15 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease; and

(4) Oil and Gas Lease and Supplemental Agreement dated June 30, 2021, a memorandum of which recorded as Document No. 00328728, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,048.70 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease.

The Carson Lease

(1) Oil and Gas Lease and Supplemental Agreement by and between I. W. Carson LLC, as Lessor, and Deadwood Cattle Co., LLC, as Lessee, dated December 31, 2018, a memorandum of which recorded as Document No. 00311551, Official Public Records of Val Verde County, Texas, as amended by Amendment to Oil and Gas Lease dated March 14, 2019, recorded as Document No. 00312441, Official Public Records, of Val Verde County, Texas, and as extended by Amendment recorded as Document No. 00332401, Second Amendment recorded as Document No. 00334020, Third Amendment recorded as Document No. 00336098 and Fourth Amendment that has yet to be recorded, covering those certain lands totaling 1,140 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease;

(2) Oil and Gas Lease and Supplemental Agreement dated May 8, 2020, a memorandum of which recorded as Document No. 00320879, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,072.25 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease;

(3) Oil and Gas Lease and Supplemental Agreement dated December 31, 2020, a memorandum of which recorded as Document No. 00324934, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,190.15 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease; and

(4) Oil and Gas Lease and Supplemental Agreement dated June 30, 2021, a memorandum of which recorded as Document No. 00328728, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,048.70 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease.

The Childress Lease

(1) Oil and Gas Lease and Supplemental Agreement dated September 24, 2020, a memorandum of which recorded in Volume 889, Page 546, Official Public Records of Crockett County, Texas, by and between Petro Childress LLC, et al, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 1,000.00 acres, more or less, in Crockett County, Texas, more particularly described in said Lease.

The West Lease

(1) Oil and Gas Lease dated effective as of October 1, 2020, between Robert West Simons, individually and as Attorney in Fact for Edwin M. Simons, Jr., Robert M. West, III, Margo Chrisann West and Rebekah Simons West, as Lessor, and Barron Petroleum LLC, as Lessee, memoranda of which are recorded as Document Numbers 00323094, 00323095, 00323096 and 00323097, Official Public Records of Val Verde County, Texas, covering 6,174.93 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease, as to depths below 1,500 feet.

B. DESCRIPTION OF LANDS COVERED:

(1) The Carson Lease – those certain lands totaling 3,048.70 acres, more or less, in Val Verde County, Texas.

(2) The Childress Lease – those certain lands totaling 1,000.00 acres, more or less, in Crockett County, Texas.

(3) The West Lease – those certain lands totaling 6,194.93 acres, more or less, in Val Verde County, Texas, as to depths below 1,500 feet.

C. BURDENS:

The Parties shall bear their proportionate share of (i) all lessor royalties, and (ii) any overriding royalty interest obligation.

D. PARTIES:	**WORKING INTEREST**
SDMB Resources LLC 5900 Balcones Drive, Suite 100 Austin, Texas 78731	50%
Receivership of the Estates of Heartland Group Ventures, LLC, et al, Civil No. 4:21-CV-01310-O, United Stated District Court for the Northern Division of Texas, Fort Worth Division 112 E. Pecan Street, Suite 1800 San Antonio, Texas 78205-1521	50%
TOTAL	**100%**

EXHIBIT "B"

ACCOUNTING PROCEDURE
JOINT OPERATIONS

[Attached]

ACCOUNTING PROCEDURE
JOINT OPERATIONS

Attached to and made part of that Operating Agreement (the "Agreement") dated December 14, 2022, between SDMB Resources LLC, herein named Operator, and Receivership of the Estates of Heartland Group Ventures, LLC, et al, Civil No. 4:21-CV-01310-O, United States District Court for the Northern Division of Texas, Fort Worth Division, herein named Non-Operator.

I. GENERAL PROVISIONS

IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT ALL THE COMPETING "ALTERNATIVE" PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.

IN THE EVENT THAT ANY "OPTIONAL" PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE PARTIES TO THE AGREEMENT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION, SUCH PROVISION SHALL NOT FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT OF THE PARTIES IN SUCH EVENT.

1. DEFINITIONS

All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:

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

"Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting Procedure is attached.

"Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

"Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest Railway Receiving Point to the property.

"Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

"Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable field personnel.

"First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may include, but are not limited to:

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations
- Responsibility for day-to-day direct oversight of construction operations
- Coordination of job priorities and approval of work procedures
- Responsibility for optimal resource utilization (equipment, Materials, personnel)
- Responsibility for meeting production and field operating expense targets
- Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental part of the supervisor's operating responsibilities
- Responsibility for all emergency responses with field staff
- Responsibility for implementing safety and environmental practices
- Responsibility for field adherence to company policy
- Responsibility for employment decisions and performance appraisals for field personnel
- Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group or team leaders.

"Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.

"Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection, maintenance, repair, abandonment, and restoration of the Joint Property.

"Joint Property" means the real and personal property subject to the Agreement.

"Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted, promulgated or issued.

"Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.

"Non-Operators" means the Parties to the Agreement other than the Operator.

"Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of offshore operations, all of which are located offshore.

"Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.

"On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.

"Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.

"Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as "Party."

"Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees, or is otherwise obligated, to pay and bear.

"Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of the costs and risks of conducting an operation under the Agreement.

"Personal Expenses" means reimbursed costs for travel and temporary living expenses.

"Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual railhead may not exist.

"Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication, scheduling and dispatching center; and other associated functions serving the Joint Property.

"Supply Store" means a recognized source or common stock point for a given Material item.

"Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-Operator, Non-Operator Affiliates, and/or third parties.

2. STATEMENTS AND BILLINGS

The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications. Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.

The Operator may make available to Non-Operators any statements and bills required under Section I.2 and/or Section I.3.A (*Advances and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written notice to the Operator.

3. ADVANCES AND PAYMENTS BY THE PARTIES

A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.

B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the Operator at the time payment is made, to the extent such reduction is caused by:

(1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working interest or Participating Interest, as applicable; or
(2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved or is not otherwise obligated to pay under the Agreement; or
(3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty (30) day period following the Operator's receipt of such written notice; or
(4) charges outside the adjustment period, as provided in Section I.4 (*Adjustments*).

4. ADJUSTMENTS

A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).

B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section I.4.B, are limited to the twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month period are limited to adjustments resulting from the following:

(1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*), or
(2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the Operator relating to another property, or
(3) a government/regulatory audit, or
(4) a working interest ownership or Participating Interest adjustment.

5. EXPENDITURE AUDITS

A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Section I.4 (*Adjustments*). Any Party that is subject to payout accounting under the Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of the Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of

those Non-Operators approving such audit.

The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specific detailed written exception as required in Section I.4.A (*Adjustments*) above. All claims shall be supported with sufficient documentation.

A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section I.5.B or I.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations, provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section I.5.B or I.5.C.

B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the Parties*).

C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section I.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the Parties*).

D. If any Party fails to meet the deadlines in Sections I.5.B or I.5.C or if any audit issues are outstanding fifteen (15) months after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution meeting, as set forth in this Section I.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60) days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

E. ☐ ***(Optional Provision – Forfeiture Penalties)***

If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section I.5.B or I.5.C, any unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made, without interest, to the Joint Account.

6. APPROVAL BY PARTIES

A. GENERAL MATTERS

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the

Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

This Section I.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for charges from that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are covered by Section I.6.B.

B. AMENDMENTS

If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by an affirmative vote of the majority in interest of the Non-Operators, which approval shall be binding on all Parties.

C. AFFILIATES

For the purpose of administering the voting procedures of Sections I.6.A and I.6.B, if Parties to this Agreement are Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating Interest of such Affiliates.

For the purposes of administering the voting procedures in Section I.6.A, if a Non-Operator is an Affiliate of the Operator, votes under Section I.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's Affiliate.

II. DIRECT CHARGES

The Operator shall charge the Joint Account with the following items:

1. RENTALS AND ROYALTIES

Lease rentals and royalties paid by the Operator, on behalf of all Parties, for the Joint Operations.

2. LABOR

A. Salaries and wages, including incentive compensation programs as set forth in COPAS MFI-37 ("Chargeability of Incentive Compensation Programs"), for:

(1) Operator's field employees directly employed On-site in the conduct of Joint Operations,

(2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by Operator*) or are not a function covered under Section III (*Overhead*),

(3) Operator's employees providing First Level Supervision,

(4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*),

(5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*).

Charges for the Operator's employees identified in Section II.2.A may be made based on the employee's actual salaries and wages, or in lieu thereof, a day rate representing the Operator's average salaries and wages of the employee's specific job category.

Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties pursuant to Section I.6.A (*General Matters*).

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 Section II.2.A, excluding severance payments or other termination allowances. Such costs under this Section II.2.B 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 Section II.2.A. 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 that are applicable to costs chargeable to the Joint Account under Sections II.2.A and B.

D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the expenses are incurred in connection with directly chargeable activities.

E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are available.

G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most recently recommended by COPAS.

H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose salaries and wages are chargeable under Section II.2.A.

3. MATERIAL

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

4. TRANSPORTATION

A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.

B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material from the Joint Property to the Operator's warehouse or other storage point shall be paid for by the Joint Property using one of the methods listed below:

(1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall consistently apply the selected alternative.

(2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged directly to the Joint Property and shall not be included when calculating the Equalized Freight.

5. SERVICES

The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").

The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).

6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:

A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation not to exceed ten percent (10%) per annum; provided, however, depreciation shall not be charged when the equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

7. AFFILIATES

A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed to such individual project do not exceed $25,000.00. If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the Operator reasonably determines that charges for such Affiliate's good and services are estimated to exceed the average commercial rates or charges prevailing in the area of the Joint Property.

C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation; provided, however, documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for Affiliate-owned communication facilities or systems shall be made pursuant to Section II.12 (*Communications*).

If the Parties fail to designate an amount in Sections II.7.A or II.7.B, in each instance the amount deemed adopted by the Parties as a result of such omission shall be the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be zero dollars ($ 0.00).

8. DAMAGES AND LOSSES TO JOINT PROPERTY

All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties shall be solely liable.

The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been received by the Operator.

9. LEGAL EXPENSE

Recording fees and costs of handling, settling, or otherwise discharging litigation, claims, and liens incurred in or resulting from operations under the Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the Agreement. Costs of the Operator's or Affiliate's legal staff or outside attorneys, including fees and expenses, are not chargeable unless approved by the Parties pursuant to Section I.6.A (*General Matters*) or otherwise provided for in the Agreement.

Notwithstanding the foregoing paragraph, costs for procuring abstracts, fees paid to outside attorneys for title examinations (including preliminary, supplemental, shut-in royalty opinions, division order title opinions), and curative work shall be chargeable to the extent permitted as a direct charge in the Agreement.

10. TAXES AND PERMITS

All taxes and permitting fees of every kind and nature, assessed or levied upon or in connection with the Joint Property, or the production therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest, except to the extent the penalties and interest result from the Operator's gross negligence or willful misconduct.

If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's working interest.

Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and penalties and interest, are permitted, provided the Non-Operator shall be allowed to review the invoices and other underlying source documents which served as the basis for tax charges and to determine that the correct amount of taxes were charged to the Joint Account. If the Non-Operator is not permitted to review such documentation, the sales/use tax amount shall not be directly charged unless the Operator can conclusively document the amount owed by the Joint Account.

11. INSURANCE

Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are conducted at locations where the Operator acts as self-insurer in regard to its worker's compensation and employer's liability insurance obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the jurisdiction governing the Joint Property. In the case of offshore operations in federal waters, the manual rates of the adjacent state shall be used for personnel performing work On-site, and such rates shall be adjusted for offshore operations by the U.S. Longshoreman and Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

12. COMMUNICATIONS

Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including satellite, radio and microwave facilities, between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance with the provisions of COPAS MFI-44 ("Field Computer and Communication Systems"). If the communications facilities or systems serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (*Equipment and Facilities Furnished by Operator*). If the communication facilities or systems serving the Joint Property are owned by the Operator's Affiliate, charges to the Joint Account shall not exceed average commercial rates prevailing in the area of the Joint Property. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation.

13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or standards recommended by Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All other labor and functions incurred for ecological, environmental and safety matters, including management, administration, and permitting, shall be covered by Sections II.2 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as applicable.

Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable Laws, or other pollution containment and removal equipment deemed appropriate by the Operator for prudent operations, are directly chargeable.

14. ABANDONMENT AND RECLAMATION

Costs incurred for abandonment and reclamation of the Joint Property, including costs required by lease agreements or by Laws.

15. OTHER EXPENDITURES

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III (*Overhead*) 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. Charges made under this Section II.15 shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

III. OVERHEAD

As compensation for costs not specifically identified as chargeable to the Joint Account pursuant to Section II (*Direct Charges*), the Operator shall charge the Joint Account in accordance with this Section III.

Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates or third parties and regardless of location, shall include, but not be limited to, costs and expenses of:

- warehousing, other than for warehouses that are jointly owned under this Agreement
- design and drafting (except when allowed as a direct charge under Sections II.13, III.1.A(ii), and III.2, Option B)
- inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
- procurement
- administration
- accounting and auditing
- gas dispatching and gas chart integration

- human resources
- management
- supervision not directly charged under Section II.2 (*Labor*)
- legal services not directly chargeable under Section II.9 (*Legal Expense*)
- taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
- preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings with governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site inspections; reviewing, interpreting, or submitting comments on or lobbying with respect to Laws or proposed Laws.

Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses of personnel performing overhead functions, as well as office and other related expenses of overhead functions.

1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other provisions of this Section III, the Operator shall charge on either:

☒ **(Alternative 1)** Fixed Rate Basis, Section III.1.B.
☐ **(Alternative 2)** Percentage Basis, Section III.1.C.

A. TECHNICAL SERVICES

(i) Except as otherwise provided in Section II.13 (*Ecological Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **On-site** Technical Services, including third party Technical Services:

☒ **(Alternative 1 – Direct)** shall be charged **direct** to the Joint Account.

☐ **(Alternative 2 – Overhead)** shall be covered by the **overhead** rates.

(ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **Off-site** Technical Services, including third party Technical Services:

☐ **(Alternative 1 – All Overhead)** shall be covered by the **overhead** rates.

☐ **(Alternative 2 – All Direct)** shall be charged **direct** to the Joint Account.

☒ **(Alternative 3 – Drilling Direct)** shall be charged **direct** to the Joint Account, **only** to the extent such Technical Services are directly attributable to drilling, redrilling, deepening, or sidetracking operations, through completion, temporary abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover, recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section III.2 (*Overhead - Major Construction and Catastrophe*) shall be covered by the overhead rates.

Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are subject to limitations set forth in Section II.7 (*Affiliates*). Charges for Technical personnel performing non-technical work shall not be governed by this Section III.1.A, but instead governed by other provisions of this Accounting Procedure relating to the type of work being performed.

B. OVERHEAD—FIXED RATE BASIS

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

Drilling Well Rate per month $12,500.00 (prorated for less than a full month)

Producing Well Rate per month $1,250.00

(2) Application of Overhead—Drilling Well Rate shall be as follows:

(a) Charges for onshore drilling wells shall begin on the spud date and terminate on the date the drilling and/or completion equipment used on the well is released, whichever occurs later. Charges for offshore and inland waters drilling wells shall begin on the date the drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location, or is released, whichever occurs first. No charge shall be made during suspension of drilling and/or completion operations for fifteen (15) or more consecutive calendar days.

(b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of five (5) or more consecutive work–days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(3) Application of Overhead—Producing Well Rate shall be as follows:

(a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for any portion of the month shall be considered as a one-well charge for the entire month.

(b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is considered a separate well by the governing regulatory authority.

(c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one-well charge shall be made whether or not the well has produced.

(d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.

(e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a producing overhead charge.

(4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the effective date of such rates, in accordance with COPAS MFI-47 (“Adjustment of Overhead Rates”).

C. OVERHEAD—PERCENTAGE BASIS

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

(a) Development Rate six percent _____(6%) of the cost of development of the Joint Property, exclusive of costs provided under Section II.9 (*Legal Expense*) and all Material salvage credits.

(b) Operating Rate six percent (6%) of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1 (*Rentals and Royalties*) and II.9 (*Legal Expense*); all Material salvage credits; the value of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that 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:

(a) The Development Rate shall be applied to all costs in connection with:

[i] drilling, redrilling, sidetracking, or deepening of a well
[ii] a well undergoing plugback or workover operations for a period of five (5) or more consecutive work–days
[iii] preliminary expenditures necessary in preparation for drilling
[iv] expenditures incurred in abandoning when the well is not completed as a producer
[v] construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 (*Overhead-Major Construction and Catastrophe*).

(b) The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2 (*Overhead-Major Construction and Catastrophe*).

2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator shall either negotiate a rate prior to the beginning of the project, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of the Operator’s expenditure limit under the Agreement, or for any Catastrophe regardless of the amount. If the Agreement to which this Accounting Procedure is attached does not contain an expenditure limit, Major Construction Overhead shall be assessed for any single Major Construction project costing in excess of $100,000 gross.

Major Construction shall mean 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, or in the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating facilities.

Catastrophe is defined as a sudden calamitous event bringing damage, loss, or destruction to property or the environment, such as an oil spill, blowout, explosion, fire, storm, hurricane, or other disaster. The overhead rate shall be applied to those costs necessary to restore the Joint Property to the equivalent condition that existed prior to the event.

A. If the Operator absorbs the engineering, design and drafting costs related to the project:

(1) 6% of total costs if such costs are less than $100,000; plus

(2) 4% of total costs in excess of $100,000 but less than $1,000,000; plus

(3) 2% of total costs in excess of $1,000,000.

B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

(1) 6% of total costs if such costs are more than $50,000.00 but less than $100,000; plus

(2) 4% of total costs in excess of $100,000 but less than $1,000,000; plus

(3) 2% of total costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single Major Construction project shall not be treated separately, and the cost of drilling and workover wells and purchasing and installing pumping units and downhole artificial lift equipment shall be excluded. For Catastrophes, the rates shall be applied to all costs associated with each single occurrence or event.

On each project, the Operator shall advise the Non-Operator(s) in advance which of the above options shall apply.

For the purposes of calculating Catastrophe Overhead, the cost of drilling relief wells, substitute wells, or conducting other well operations directly resulting from the catastrophic event shall be included. Expenditures to which these rates apply shall not be reduced by salvage or insurance recoveries. Expenditures that qualify for Major Construction or Catastrophe Overhead shall not qualify for overhead under any other overhead provisions.

In the event of any conflict between the provisions of this Section III.2 and the provisions of Sections II.2 (*Labor*), II.5 (*Services*), or II.7 (*Affiliates*), the provisions of this Section III.2 shall govern.

3. AMENDMENT OF OVERHEAD RATES

The overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient or excessive, in accordance with the provisions of Section I.6.B (*Amendments*).

IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality, fitness for use, or any other matter.

1. DIRECT PURCHASES

Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to the extent such failure was the result of the Operator's gross negligence or willful misconduct. A direct purchase shall be deemed to occur when an agreement is made between an Operator and a third party for the acquisition of Material for a specific well site or location. Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material does not pass from the manufacturer, distributor, or agent until usage, is considered a direct purchase. If Material is found to be defective or is returned to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account within sixty (60) days after the Operator has received adjustment from the manufacturer, distributor, or agent.

2. TRANSFERS

A transfer is determined to occur when the Operator (i) furnishes Material from a storage facility or from another operated property, (ii) has assumed liability for the storage costs and changes in value, and (iii) has previously secured and held title to the transferred Material. Similarly, the removal of Material from the Joint Property to a storage facility or to another operated property is also considered a transfer; provided, however, Material that is moved from the Joint Property to a storage location for safe-keeping pending disposition may remain charged to the Joint Account and is not considered a transfer. Material shall be disposed of in accordance with Section IV.3 (*Disposition of Surplus*) and the Agreement to which this Accounting Procedure is attached.

A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties pursuant to Section I.6.A (*General Matters*). Transfers of new Material will be priced using one of the following pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

(1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).

(a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base prices (Houston, Texas, for special end) adjusted as of date of movement, plus transportation cost as defined in Section IV.2.B (*Freight*).

(b) For other Material, the published price shall be the published list price in effect at date of movement, as listed by a Supply Store nearest the Joint Property where like Material is normally available, or point of manufacture plus transportation costs as defined in Section IV.2.B (*Freight*).

(2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.

(3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the previous twelve (12) months from the date of physical transfer.

(4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties owning the Material for Material being transferred from the Joint Property.

B. FREIGHT

Transportation costs shall be added to the Material transfer price using the method prescribed by the COPAS Computerized Equipment Pricing System (CEPS). If not using CEPS, transportation costs shall be calculated as follows:

(1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38 (“Material Pricing Manual”) and other COPAS MFIs in effect at the time of the transfer.

(2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway Receiving Point.

(3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the Railway Receiving Point.

(4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point

Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the Joint Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as provided in Section II.4 (*Transportation*) of this Accounting Procedure.

C. TAXES

Sales and use taxes shall be added to the Material transfer price using either the method contained in the COPAS Computerized Equipment Pricing System (CEPS) or the applicable tax rate in effect for the Joint Property at the time and place of transfer. In either case, the Joint Account shall be charged or credited at the rate that would have governed had the Material been a direct purchase.

D. CONDITION

(1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties owning such Material, pursuant to Section I.6.A (*General Matters*). All refurbishing costs required or necessary to return the Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material for the receiving property.

(2) Condition "B" – Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by seventy-five percent (75%).

Except as provided in Section IV.2.D(3), all reconditioning costs required to return the Material to Condition "B" or to correct handling, transportation or other damages will be borne by the divesting property.

If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint Property, the Material will be credited at the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) multiplied by sixty-five percent (65%).

Unless otherwise agreed to by the Parties that paid for such Material, used Material transferred from the Joint Property that was not placed in service on the property shall be credited as charged without gain or loss.

(3) Condition "C" – Material that is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by fifty percent (50%).

The cost of reconditioning may be charged to the receiving property to the extent Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for items with different specifications, is considered Condition "D" Material. 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. 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. For other items, the price used should result in the Joint Account being charged or credited with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A (*General Matters*).

(5) Condition "E" – Junk shall be priced at prevailing scrap value prices.

E. OTHER PRICING PROVISIONS

(1) Preparation Costs

Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of the Materials and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or credits shall be made for used coating or wrapping. Charges and credits for inspections shall be made in accordance with COPAS MFI-38 ("Material Pricing Manual").

(2) Loading and Unloading Costs

Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged in accordance with the methods specified in COPAS MFI-38 ("Material Pricing Manual").

3. DISPOSITION OF SURPLUS

Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but shall be under no obligation to purchase, the interest of the Non-Operators in surplus Material.

Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the Joint Property to either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus Material, the Operator should make good faith efforts to dispose of surplus within twelve (12) months through buy/sale agreements, trade, sale to a third party, division in kind, or other dispositions as agreed to by the Parties.

Disposal of surplus Materials shall be made in accordance with the terms of the Agreement to which this Accounting Procedure is attached. If the Agreement contains no provisions governing disposal of surplus Material, the following terms shall apply:

- The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is attached without the prior approval of the Parties owning such Material.

- If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such Material.

- Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on the pricing methods set forth in Section IV.2 (*Transfers*).

- Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the Materials, based on the pricing methods set forth in Section IV.2 (*Transfers*), is less than or equal to the Operator's expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as Condition C.

- Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior approval of the Parties owning such Material.

4. SPECIAL PRICING PROVISIONS

A. PREMIUM PRICING

Whenever Material is available only at inflated prices due to national emergencies, strikes, government imposed foreign trade restrictions, or other unusual causes over which the Operator has no control, for direct purchase the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, making it suitable for use, and moving it to the Joint Property. Material transferred or disposed of during premium pricing situations shall be valued in accordance with Section IV.2 (*Transfers*) or Section IV.3 (*Disposition of Surplus*), as applicable.

B. SHOP-MADE ITEMS

Items fabricated by the Operator's employees, or by contract laborers under the direction of the Operator, shall be priced using the value of the Material used to construct the item plus the cost of labor to fabricate the item. If the Material is from the Operator's scrap or junk account, the Material shall be priced at either twenty-five percent (25%) of the current price as determined in Section IV.2.A (*Pricing*) or scrap value, whichever is higher. In no event shall the amount charged exceed the value of the item commensurate with its use.

C. MILL REJECTS

Mill rejects purchased as "limited service" casing or tubing shall be priced at eighty percent (80%) of K-55/J-55 price as determined in Section IV.2 (*Transfers*). Line pipe converted to casing or tubing with casing or tubing couplings attached shall be priced as K-55/J-55 casing or tubing at the nearest size and weight.

V. INVENTORIES OF CONTROLLABLE MATERIAL

The Operator shall maintain records of Controllable Material charged to the Joint Account, with sufficient detail to perform physical inventories.

Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable Material shall be made within twelve (12) months following the taking of the inventory or receipt of Non-Operator inventory report. Charges and credits for overages or shortages will be valued for the Joint Account in accordance with Section IV.2 (*Transfers*) and shall be based on the Condition "B" prices in effect on the date of physical inventory unless the inventorying Parties can provide sufficient evidence another Material condition applies.

1. DIRECTED INVENTORIES

Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform directed inventories more frequently than once every five (5) years. Directed inventories shall be commenced within one hundred eighty (180) days after the Operator receives written notice that a majority in interest of the Non-Operators has requested the inventory. All Parties shall be governed by the results of any directed inventory.

Expenses of directed inventories will be borne by the Joint Account; provided, however, costs associated with any post-report follow-up work in settling the inventory will be absorbed by the Party incurring such costs. The Operator is expected to exercise judgment in keeping expenses within reasonable limits. Any anticipated disproportionate or extraordinary costs should be discussed and agreed upon prior to commencement of the inventory. Expenses of directed inventories may include the following:

A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel performing the inventory or a rate agreed to by the Parties pursuant to Section I.6.A (*General Matters*). The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report preparation.

B. Actual transportation costs and Personal Expenses for the inventory team.

C. Reasonable charges for report preparation and distribution to the Non-Operators.

2. NON-DIRECTED INVENTORIES

A. OPERATOR INVENTORIES

Physical inventories that are not requested by the Non-Operators may be performed by the Operator, at the Operator's discretion. The expenses of conducting such Operator-initiated inventories shall not be charged to the Joint Account.

B. NON-OPERATOR INVENTORIES

Subject to the terms of the Agreement to which this Accounting Procedure is attached, the Non-Operators may conduct a physical inventory at reasonable times at their sole cost and risk after giving the Operator at least ninety (90) days prior written notice. The Non-Operator inventory report shall be furnished to the Operator in writing within ninety (90) days of completing the inventory fieldwork.

C. SPECIAL INVENTORIES

The expense of conducting inventories other than those described in Sections V.1 (*Directed Inventories*), V.2.A (*Operator Inventories*), or V.2.B (*Non-Operator Inventories*), shall be charged to the Party requesting such inventory; provided, however, inventories required due to a change of Operator shall be charged to the Joint Account in the same manner as described in Section V.1 (*Directed Inventories*).

EXHIBIT "C"

INSURANCE AND INDEMNITY

Attached to and made a part of that Operating Agreement dated December [__], 2022, between SDMB Resources LLC, herein Operator and Receivership of the Estates of Heartland Group Ventures, LLC, et al, Civil No. 4:21-CV-01310-O, United States District Court for the Northern Division of Texas, Fort Worth Division, herein Non-Operator.

At all times while operations are conducted under this Agreement, Operator shall maintain for the benefit of all parties hereto, insurance of the types and in the amounts as follows or such greater amounts as Operator, in the sole discretion of Operator deems appropriate. Premiums for such insurance shall be charged to the Joint Account.

Non-operating working interest owners shall be Additional Insureds on the liability insurance policies, but only with respect to the performance of all work hereunder.

All such insurance shall be carried in a company or companies selected by Operator; shall be maintained in full force and effect during the terms of this Operating Agreement. If so required, and requested by any Non-Operator, Operator agrees to request its insurance carrier to furnish certificates of insurance evidencing such insurance coverages to Non-Operator.

Non-operating working interest owners agree that the limits and coverage carried by Operator are adequate and shall hold Operator harmless if any claim exceeds such limit or is not covered by such policy. Such coverages and limits may change or be unavailable from time to time and Operator does not guarantee their continuance but will use best commercial efforts to provide such coverages and limits at reasonable costs.

a. Workers' Compensation and Employers' Liability insurance, if applicable, in accordance with the laws of the state of Texas. The Employers' Liability limit will be $1,000,000 per accident.

b. Automobile Public Liability insurance covering all owned, non-owned and hired vehicles with a combined single limit of not less than $1,000,000.

c. Comprehensive General Liability, bodily injury and property damage insurance with a combined single limit of not less than $1,000,000 for each occurrence//aggregated. This would include contractual liability coverage.

d. Umbrella Liability with limits of not less than $10,000,000 per occurrence and $10,000,000 annual aggregate.

Operator may, if Operator so elects (but is under no obligation to do so), also carry other insurance, such as blow out insurance, for the benefit of Operator and Non-Operators, in which event the premiums for same shall be charged to the Joint Account.

ASSIGNMENT OF OIL AND GAS LEASE

STATE OF TEXAS KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF VAL VERDE

THAT, subject to the terms, reservations and conditions hereinafter set forth, **DEBORAH D. WILLIAMSON SOLELY IN HER CAPACITY AS COURT APPOINTED RECEIVER FOR THE ESTATES OF HEARTLAND GROUP VENTURES, LLC *ET AL*, CIVIL NO. 4:21-CV-01310-O, UNITED STATES DISTRICT COURT FOR THE NORTHERN DIVISION OF TEXAS, FORT WORTH DIVISION**, (hereinafter referred to as "Assignor"), for and in consideration of One Hundred and No/100 Dollars ($100.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, does hereby GRANT, BARGAIN, SELL, CONVEY and ASSIGN unto **SDMB RESOURCES LLC** ("Assignee") part of Assignor's right, title and interest, as further specified in that certain Farmout Agreement dated December 14, 2022 between Assignor and Assignee (the "Farmout Agreement"), in and to the oil and gas leases described in Exhibit "A" attached hereto and made a part hereof for all purposes (hereinafter referred to as the "Leases"), insofar as the Leases cover and relate to the lands described in said Leases to the extent held (the "Lands"), in and to the wells described in Exhibit "B" attached hereto and made a part hereof for all purposes (hereinafter referred to as the "Wells"), and in and to the pipeline easements described in Exhibit "C" attached hereto and made a part hereof for all purposes (hereinafter referred to as the "Pipelines"). The working interest in the Leases, Wells and Pipelines upon delivery of this Assignment shall be owned and held as follows: (i) 50% to Assignee (the "Working Interest"), with the remaining 50% belonging to Assignor.

Assignee expressly assumes all of the obligations under the Leases, whether express or implied, as to the interests conveyed hereby.

Assignee shall keep Assignor apprised by quarterly written statement of all wells drilled or being drilled by Assignee located on the Leases or on lands pooled therewith, the producing status of all such wells and current production information for all producing wells. Assignee shall, promptly after same is prepared or received by Assignee, deliver to Assignor copies of permits to drill, daily drilling reports, well history reports, rework reports, and reports on production of each well drilled by or on behalf of Assignee or in which Assignee has a present or reversionary interest in the Leases or lands pooled therewith. Assignee shall promptly furnish Assignor copies of all logs, including electrical surveys, mud logs, core analysis, and reports on drill stem tests for each well referred to in this paragraph. All information required herein shall be furnished by Assignee to Assignor, free of all costs or charges to Assignor, upon its availability to Assignee or its agents. The duration of the assigned Working Interest is subject to Section 3.4 of the Farmout Agreement.

Assignee shall indemnify and defend Assignor from and against any plugging, replugging, abandonment, removal, disposal and restoration liabilities and obligations associated with Assignee's operations on the Leases. Such obligations and liabilities shall include, but not be limited to, all necessary and proper plugging and abandonment and/or removal and disposal of any wells drilled by Assignee, and all structures and equipment located on or associated with any wells drilled by Assignee, the necessary and proper capping and burying of all associated flow lines, and any necessary disposal of naturally occurring radioactive material or asbestos associated with Assignee's operations on the Leases. Assignee shall ensure that all plugging, replugging, abandonment, removal, disposal and restoration operations shall be in compliance with applicable laws and regulations and conducted in a good and workmanlike manner.

Assignor and Assignee shall indemnify each other as set forth in section 6.2 of the Farmout Agreement.

Assignor agrees to warrant and forever defend title to the Leases but only by, through and under Assignor, but not otherwise and with full substitution and subrogation in favor of Assignee to all covenants and warranties by others heretofore given or made in Assignor's chain of title with respect to the Leases.

This assignment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, and all terms, provisions and reservations contained in this Assignment shall be deemed as covenants running with the land.

This assignment is further subject to the terms and provisions of the Farmout Agreement containing certain obligations and covenants between Assignor and Assignee which shall not be merged into this assignment, or otherwise be negated by the execution and delivery of this assignment and which shall survive the execution and delivery of this assignment (subject to the terms set forth therein).

EXECUTED AND EFFECTIVE this 14th day of December, 2022 (the "Effective Date").

[*Signatures continue on the following page*]

ASSIGNOR:

RECEIVERSHIP OF THE ESTATES OF HEARTLAND GROUP VENTURES, LLC, et al, CIVIL NO. 4:21-CV-01310-O, UNITED STATES DISTRICT COURT FOR THE NORTHERN DIVISION OF TEXAS, FORT WORTH DIVISION

By: _____
Name: Deborah D. Williamson
Title: Court-Appointed Receiver

112 E. Pecan Street, Suite 1800
San Antonio, Texas 78205-1521

STATE OF TEXAS

COUNTY OF VAL VERDE

On this ____ day of _____, 2022, before me the undersigned authority personally appeared _____, whose genuine signature is affixed to the foregoing document as _____ of _____ _____, and who acknowledged, in my presence, that he signed the above and foregoing document as his own free act and deed on behalf of said _____ acting and as the free act and deed of such _____ and for the uses and purposes therein set forth and apparent.

I have hereto set my hand and official seal this _____ day of _____, 2022.

_____
Notary Public in and for
the State of Texas

ASSIGNEE:

SDMB RESOURCES LLC

By: _____
Name: David Underwood
Title: Manager

5900 Balcones Drive, Suite 100
Austin, Texas 78731

STATE OF TEXAS

COUNTY OF VAL VERDE

On this ____ day of _____, 2022, before me the undersigned authority personally appeared _____, whose genuine signature is affixed to the foregoing document as _____ of _____ _____, and who acknowledged, in my presence, that he signed the above and foregoing document as his own free act and deed on behalf of said _____ acting and as the free act and deed of such _____ and for the uses and purposes therein set forth and apparent.

I have hereto set my hand and official seal this _____ day of _____, 2022.

_____
Notary Public in and for
the State of Texas

EXHIBIT "A"
Attached to and made a part of Assignment, Conveyance and Bill of Sale effective _____, 2022

The Carson Lease

1. Oil and Gas Lease and Supplemental Agreement by and between I. W. Carson LLC, as Lessor, and Deadwood Cattle Co., LLC, as Lessee, dated December 31, 2018, a memorandum of which recorded as Document No. 00311551, Official Public Records of Val Verde County, Texas, as amended by Amendment to Oil and Gas Lease dated March 14, 2019, recorded as Document No. 00312441, Official Public Records, of Val Verde County, Texas, and as extended by Amendment recorded as Document No. 00332401, Second Amendment recorded as Document No. 00334020, Third Amendment recorded as Document No. 00336098 and Fourth Amendment that has yet to be recorded, covering those certain lands totaling 1,140 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease;

2. Oil and Gas Lease and Supplemental Agreement dated May 8, 2020, a memorandum of which recorded as Document No. 00320879, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,072.25 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease;

3. Oil and Gas Lease and Supplemental Agreement dated December 31, 2020, a memorandum of which recorded as Document No. 00324934, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,190.15 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease; and

4. Oil and Gas Lease and Supplemental Agreement dated June 30, 2021, a memorandum of which recorded as Document No. 00328728, Official Public Records of Val Verde County, Texas, by and between I. W. Carson LLC, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 3,048.70 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease.

The Childress Lease

1. Oil and Gas Lease and Supplemental Agreement dated September 24, 2020, a memorandum of which recorded in Volume 889, Page 546, Official Public Records of Crockett County, Texas, by and between Petro Childress LLC, et al, as Lessor, and Barron Petroleum LLC, as Lessee, covering those certain lands totaling 1,000.00 acres, more or less, in Crockett County, Texas, more particularly described in said Lease.

The West Lease

1. Oil and Gas Lease dated effective as of October 1, 2020, between Robert West Simons, individually and as Attorney in Fact for Edwin M. Simons, Jr., Robert M. West, III, Margo Chrisann West and Rebekah Simons West (undivided 1/5 interest each), as Lessor, and Barron Petroleum LLC, as Lessee, covering 6,174.90 acres, more or less, in Val Verde County, Texas, more particularly described in said Lease, and covering all rights as to depths below 1,500 feet.

EXHIBIT "B"

Wells

Carson Lease:

Sahota Carson 20BU #1 Well – API 46530878

Sahota Carson 19BU #3 Well – API 46530879

Childress Lease:

Sahota #4 Well – API 10542489

Sahota #5 Well—API 10542490

Sahota #6 Well—API 10542491

Sahota #7 Well—API 10542492

Sahota #8 Well—API 10542493

Sahota #9 Well—API 10542494

Sahota #12 Well-API 10542497

Sahota #13 Well-API 10542498

Sahota #14 Well-API 10542499

EXHIBIT "C"

Pipelines

1. Surface Use and Right of Way Agreement from Joe S. Pierce, V, to Barron Petroleum, LLC, dated April 13, 2021, recorded in Volume 896, Page 408, Official Public Records of Crockett County, Texas.

2. Surface Use and Right of Way Agreement from Bill Cole Ranches Ltd., to Barron Petroleum, LLC, dated January 19, 2021, recorded in Volume 893, Page 87, Official Public Records of Crockett County, Texas, and as Document No. 325208, Official Public Records of Val Verde County, Texas.

3. All pipeline easements on or through the lands subject to the Leases set forth in Exhibit "A".

EXHIBIT B

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

UNITED STATES SECURITIES AND EXCHANGE COMMISSION,	§	
Plaintiff,	§	
v.	§	
THE HEARTLAND GROUP VENTURES, LLC; HEARTLAND PRODUCTION AND RECOVERY LLC; HEARTLAND PRODUCTION AND RECOVERY FUND LLC; HEARTLAND PRODUCTION AND RECOVERY FUND II LLC; THE HEARTLAND GROUP FUND III, LLC; HEARTLAND DRILLING FUND I, LP; CARSON OIL FIELD DEVELOPMENT FUND II, LP; ALTERNATIVE OFFICE SOLUTIONS, LLC; ARCOOIL CORP.; BARRON PETROLEUM LLC; JAMES IKEY; JOHN MURATORE; THOMAS BRAD PEARSEY; MANJIT SINGH (AKA ROGER) SAHOTA; and RUSTIN BRUNSON,	§	**No. 4:21-cv-1310-O-BP**
Defendants,	§	
and	§	
DODSON PRAIRIE OIL & GAS LLC; PANTHER CITY ENERGY LLC; MURATORE FINANCIAL SERVICES, INC.; BRIDY IKEY; ENCYPHER BASTION, LLC; IGROUP ENTERPRISES LLC; HARPRIT SAHOTA; MONROSE SAHOTA; SUNNY SAHOTA; BARRON ENERGY CORPORATION; DALLAS RESOURCES INC.; LEADING EDGE ENERGY, LLC; SAHOTA CAPITAL LLC; and 1178137 B.C. LTD.,	§	
Relief Defendants.	§	

ORDER GRANTING RECEIVER'S EXPEDITED MOTION FOR APPROVAL OF MODIFIED FARMOUT AGREEMENT

Came on to be heard the *Receiver's Expedited Motion for Approval of Modified Farmout Agreement* (the "Motion") in connection with the leases in Val Verde and Crockett Counties.[1] After considering the Receiver's Motion, all responses thereto, if any, all evidence submitted to the Court and the arguments of counsel, the Court is of the opinion that said Motion should be **GRANTED** in all respects.

IT IS THEREFORE ORDERED that the Court approves the Farmout Agreement between the Receiver and the lessors, as a sound exercise of the Receiver's business judgment, which:

(a) Creates the opportunity to have one or more of the existing wells begin producing;

(b) Provides a 50% carried interest in existing wells until recovery of $5.5 million; and

(c) Provides a mechanism to give the Receiver a potential for upside returns by participating to the extent of a 7.5% cost-bearing working interest in any wells drilled after the carried interest is fully expended (but without an obligation to do so).

IT IS FURTHERED ORDERED that the Receiver, as Farmor, is authorized to enter into the Revised Farmout Agreement, a copy of which was attached to the Motion as Exhibit A, with SDMB Resources LLC as Farmee.

IT IS FURTHER ORDERED that the Receiver may take any action and execute any document necessary with respect to the Farmout Agreement and the relief granted herein.

[1] Capitalized terms used but not otherwise described herein shall have the meaning ascribed in the Motion or the Initial Farmout Motion, as applicable.

Signed this ___day of _____, 202_.

HAL R. RAY, JR.
UNITED STATES MAGISTRATE JUDGE

Prepared and submitted by:

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