

**UNIT DECLARATION**

\_\_\_\_ COMES NOW Storm Cat Energy (USA) Operating Corporation, and by authority granted in the oil and gas leases ("Leases") described on the attached Exhibit "A", and in accordance with all other authority and powers granted by its participating partners, and in accordance with Reference Order No. 112-2007-03 promulgated April 13, 2007, by the Arkansas Oil and Gas Commission, hereby declares the following lands located in Van Buren County, Arkansas, as a drilling and producing unit, to-wit:

**Section 12, Township 11 North, Range 17 West, Van Buren County, Arkansas**

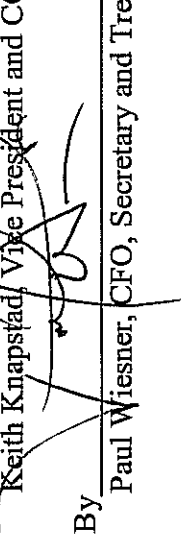
The above described lands have been designated as a production unit by the Arkansas Oil and Gas Commission in accordance with Reference Order No. 112-2007-03 of the Arkansas Oil and Gas Commission. Such production unit is known as the Files No. 1-12 and is producing from the Fayetteville Shale Formation within the B-43 Field. The undersigned operator reserves the right to amend this Declaration to include any leases or interest which may be subsequently acquired covering the lands hereinabove described or which may have been inadvertently omitted from Exhibit "A".

This instrument, if necessary, may be executed in counterparts, and each shall be deemed an original.

Executed this 15~~th~~ day of February, 2008.

Storm Cat Energy (USA) Operating Corporation

By   
Keith Knapstad, Vice President and COO

By   
Paul Wiesner, CFO, Secretary and Treasurer

ATTEST:

STATE OF Colorado \*

\*

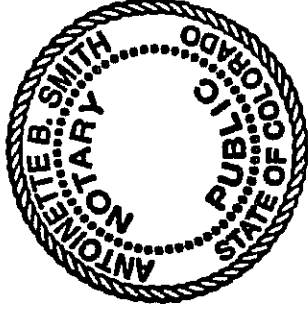
COUNTY OF Denver \*

\*

On this 15th day of February, 2008 before me the undersigned Notary Public, duly commissioned, qualified and acting, within and for said County and State, appeared in person the within named Keith Knapstad and Paul Wiesner, to me personally well known, who stated that they were the Vice President and Chief Operating Officer and Chief Financial Officer, Secretary and Treasurer of Storm Cat Energy (USA) Operating Corporation, a corporation, and were duly authorized in their respective capacities to execute the foregoing instrument for and in the name and behalf of said corporation, and further stated and acknowledged that they had so signed, executed and delivered said foregoing instrument for the consideration, uses and purposes therein mentioned and set forth.

In testimony whereof, I have hereunto set my hand and official seal this 15th day of February, 2008

Antoinette B. Smith  
Notary Public



My commission expires

8/17/2009

**EXHIBIT "A"**

to

**UNIT DECLARATION****Oil & Gas Lease #1:**

Date: February 22, 2007  
Recorded: No recording data  
Lessor: Mitchell Royalty, a Limited Partnership, Victor Mitchell and Cynthia Mitchell, Individually  
Lessee: Chesapeake Exploration Limited Partnership

**Oil & Gas Lease #2:**

Date: April 12, 2007  
Recorded: No recording data  
Lessor: Dennis C. Dan, Individually, and as the Personal Representative of the Estate of Connie Lee Dan, deceased  
Lessee: Chesapeake Exploration Limited Partnership

**Oil & Gas Lease #3:**

Date: April 12, 2007  
Recorded: No recording data  
Lessor: Bonnie McColl  
Lessee: Chesapeake Exploration Limited Partnership.

**Oil & Gas Lease #4:**

Date: April 12, 2007  
Recorded: No recording data  
Lessor: Franklin Wasson  
Lessee: Chesapeake Exploration Limited Partnership

**Oil & Gas Lease #5:**

Date: April 12, 2007  
Recorded: No recording data  
Lessor: Virginia Lamirand  
Lessee: Chesapeake Exploration Limited Partnership

**Oil & Gas Lease #6:**

Date: April 12, 2007  
Recorded: No recording data  
Lessor: Jackie Morgan  
Lessee: Chesapeake Exploration Limited Partnership

**Oil & Gas Lease #7:**

Date: April 12, 2007  
Recorded: No recording data  
Lessor: Mary Vaughan  
Lessee: Chesapeake Exploration Limited Partnership

**Oil & Gas Lease #8:**

Date: April 12, 2007  
Recorded: No recording data  
Lessor: Marie Rosen  
Lessee: Chesapeake Exploration Limited Partnership

**Oil & Gas Lease #9:**

Date: April 12, 2007  
Recorded: No recording data  
Lessor: Maymie Thompson  
Lessee: Chesapeake Exploration Limited Partnership

**Oil & Gas Lease #10:**

Date: January 12, 2007  
Recorded: May 10, 2007  
Lessor: Roxana Cevasco Wallace a/k/a Roxana C. Wallace, f/k/a Roxana R. Cevasco, a single woman  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #11:**

Date: March 27, 2007  
Recorded: May 10, 2007, Correction Recorded May 29, 2007  
Lessor: Kirk Files  
Lessee: Storm Cat Energy (USA) Corporation

**Oil & Gas Lease #12:**

Date: September 22, 2005  
Recorded: November 20, 2006  
Lessor: C. Kirk Files (a/k/a Kirk Files, Cecil K. Files, Cecil Kirk Files), a single man  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #13:**

Date: September 22, 2005  
Recorded: November 20, 2006  
Lessor: James Arnett Files and Amber Files, Husband and wife, and also Timothy Glenn Files, a single man  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #14:**

Date: March 27, 2007  
Recorded: April 23, 2007  
Lessor: James Arnett Files and Amber Files, Husband and wife, and also Timothy Glenn Files, a single man  
Lessee: Storm Cat Energy (USA) Corporation

**Oil & Gas Lease #15:**

Date: March 15, 2007  
Recorded: April 23, 2007  
Lessor: James E. Strange and Karen S. Strange, husband and wife  
Lessee: Storm Cat Energy (USA) Corporation

**Oil & Gas Lease #16:**

Date: January 31, 2007  
Recorded: April 23, 2007  
Lessor: Joe Lee and Mary Lou Lee, husband and wife  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #17:**

Date: January 31, 2007  
Recorded: April 23, 2007  
Lessor: Roy Lefler, Jr. and Carolyn Lefler, husband and wife  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #18:**

Date: January 31, 2007  
Recorded: April 23, 2007  
Lessor: Toney Parish and Sally F. Parish, a/k/a Sally Frances Parish, husband and wife  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #19:**

Date: December 13, 2006  
Recorded: April 23, 2007  
Lessor: Louis T. Smith, a single man  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #20:**

Date: January 15, 2007  
Recorded: April 23, 2007  
Lessor: Audie J. Dufrene and Wendy L. Dufrene, husband and wife  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #21:**

Date: January 26, 2006  
Recorded: March 17, 2006  
Lessor: Audie J. Dufrene and Wendy L. Dufrene, husband and wife  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #22:**

Date: October 27, 2005  
Recorded: March 3, 2006  
Lessor: Bryce Emerson and Fern Emerson, husband and wife  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #23:**

Date: March 27, 2007  
Recorded: May 29, 2007  
Lessor: Ervin Southard  
Lessee: Storm Cat Energy (USA) Corporation

**Oil & Gas Lease #24:**

Date: April 23, 2006  
Recorded: June 16, 2006  
Lessor: Julia B. Furgason a/k/a Julia B. Soulsby, a married woman  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #25:**

Date: February 28, 2007  
Recorded: May 10, 2007  
Lessor: BXP Partners I, LP, and also BXP Co-Investment Partners I  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #26:**

Date: September 13, 2006  
Recorded: April 23, 2007  
Lessor: Kenneth B. Finch, a single man  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #27:**

Date: January 10, 2006  
Recorded: May 15, 2006  
Lessor: Majd Kamalmaz and Hassnaa Kamalmaz, husband and wife (a/k/a Hasnaa Kamalmaz & H. Kamalmaz)  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #28:**

Date: August 31, 2004  
Recorded: Date unknown, Document #20048898  
Lessor: Black Stone Minerals Company L.P., and Black Stone Ivory Acquisition Partners,  
L.P.  
Lessee: Seeco, Inc.

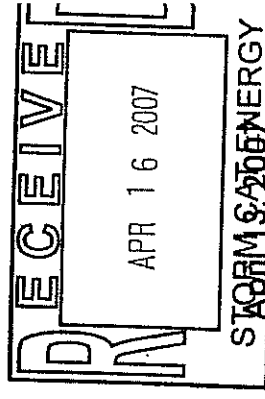
**Oil & Gas Lease #29:**

Date: January 12, 2007  
Recorded: May 10, 2007  
Lessor: Frank E. Sutton, a single man  
Lessee: Western Land Services, Inc.

**Oil & Gas Lease #30:**

Date: July 2, 2007  
Recorded: October 9, 2007  
Lessor: Gary William Domino, Jr., a single man  
Lessee: Western Land Services, Inc.

ARKANSAS OIL AND GAS COMMISSION  
2215 WEST HILLSBORO  
P.O. BOX 1472  
EL DORADO, ARKANSAS 71731-1472



ORDER NO. 112-2007-03

**General Rule B-43 Well Spacing Area**  
Van Buren County, Arkansas

**INTEGRATION OF A DRILLING UNIT**

After due notice and public hearing in Fort Smith, Arkansas, on March 27, 2007, the Arkansas Oil and Gas Commission, in order to prevent waste, carry out an orderly program of development and protect the correlative rights of each owner in the common source(s) of supply in this drilling unit, has found the following facts and issued the following Order.

**STATEMENT OF THE CASE**

**Storm Cat Energy Corporation joined by Storm Cat Energy (USA) Operating Corporation** (the "Applicant") filed its application for an Order pooling and integrating the unleased mineral interest(s) and/or uncommitted leasehold working interest(s) of certain parties named therein who have failed to voluntarily integrate their interest(s) for the development of the unit comprising of Section 12, Township 11 North, Range 17 West, Van Buren County, Arkansas.

The Applicant presented proof that they had attempted unsuccessfully to acquire voluntary leases and/or other agreements for consideration or on terms equal to that otherwise offered and paid for similar leases or leasehold interest(s) in this drilling unit.

At the request of the Applicant, the following parties were dismissed by the Commission, regardless of whether the party or parties are listed as unleased mineral interest(s) or uncommitted leasehold working interest(s) to be integrated:

Jamie Strange; Ervin Southard

**FINDINGS OF FACT**

From the evidence introduced at said hearing, the Commission finds:

1. That the Applicant has proposed to drill a well within a drilling unit (Unit) that the Commission has previously established, consisting of Section 12, Township 11 North, Range 17 West, Van Buren County, Arkansas containing 640 acres, more or less.

XC: Matt Humphreys  
Keith Knapstad  
Tam Knox

AR-Z-164BC



2. The Applicant plans to drill such well (the "initial well") to an estimated depth of 7200 feet to test the Fayetteville Shale Formation and any intervening formations for the production of hydrocarbons.

3. The requested Model Form Joint Operating Agreement employed by the Applicant and proposed to the owners set out in Finding Nos. 5 and 6 (if any) below, is in the form of A.A.P.L. Form 610-1982 Model Form Operating Agreement (JOA), completed, amended, and modified as adopted by the Commission on October 24, 2006.

4. The requested one-year term oil and gas lease (Lease) employed by the Applicant is in the form of Exhibit "B" of the JOA.

5. The unleased mineral interest(s) to be integrated are:

Charles Bondurant; Edmunson Bondurant; Roberfine Carleton Trust; William Bondurant; Connie Dan; Kirk Files or Estate of Ernest and Roberfine Carleton; Timothy Files and James Files; Virginia Lamirand; Bonnie McColi; Mitchell Royalty; Jackie Morgan; Marie Rosen; Mary Vaughn; Franklin Wasson

and any unknown spouse, heir, devisee, personal representative, successor or assigns of said owners of unleased interests.

6. The uncommitted leasehold working interest(s) to be integrated are:

SEECO, Inc.

and any unknown spouse, heir, devisee, personal representative, successor or assigns of said owners of uncommitted leasehold interests.

7. The Applicant requests that any parties listed in Findings Nos. 5 and/or 6 (unless dismissed at the request of the Applicant in the Statement of the Case above) be integrated.

8. The alternatives for integrated parties are:

A. Unleased Mineral Interest(s) Alternatives:

1. Lease

Execute a lease covering the unleased mineral interest(s) with any party upon mutually agreed terms, provided that Applicant receives notice prior to the close of the "Election Period" provided

in Paragraph No. 4 of the Order below (lessee would then be bound by the terms of this order as an uncommitted working interest owner, regardless of whether such owner is listed in Finding No. 6 above); or execute and deliver to the Applicant a Lease as identified in Finding No. 4 covering their unleased mineral interest(s) in the aforementioned Unit, for a cash bonus of \$400.00 per net mineral acre as fair and reasonable compensation in lieu of the election to participate with a working interest in said Unit and that said Lease(s) provide for a 1/8 royalty, provided that any such owner should have the further option of a bonus of \$300.00 and retaining 1/5 royalty in said Lease and that each such owner thereafter be bound by the terms of said Lease, including for purposes of subsequent operations, (whether or not such owner actually executes such Lease) for so long as there is production of hydrocarbons from within the Unit. Applicant must tender said lease bonus within thirty (30) days of the date an election is made; if such payment cannot be made due to issues regarding marketability of title, then the Applicant shall pay said bonus into one or more identifiable trust accounts (which shall be accounts in a bank, savings bank, trust company, savings and loan association, credit union, or federally regulated investment company, and the institution shall be insured by an agency of the federal government); or if payment cannot be made for any other reason, then the Applicant may appear before the Commission to request an extension of time and the Commission may condition the granting of such extension upon payment of a reasonable sum which shall be paid as an additional bonus to the unleased mineral owner.

2. Participate in the initial well

Participate by paying their proportionate share in the costs of drilling, completing, equipping and operating the initial well, subject to the terms of the JOA, and that each such owner thereafter be bound by the terms of such JOA (whether or not such owner actually executes such agreement), including for purposes of subsequent operations, for so long as there is production of hydrocarbons from within the Unit; or

3. Elect "Non-Consent"

Neither execute a lease nor participate in said costs and become a "Non-Consenting Party" under the JOA with respect to the initial

well, and be subject to all of the non-consent provisions thereunder, until the proceeds realized from the sale of such owner's share of production from the initial well, except 1/8<sup>th</sup> thereof, shall equal the total recoupment amount described in subparagraphs (a) and (b) of Article VI.B.2 of the JOA, with the non-consent penalty under Article VI.B.2(b) being 600% for the initial well and/or 400% for each subsequent well drilled on the Unit. Each such owner shall be bound by the terms of the JOA both before and after recovery of such recoupment amount and also for purposes of proposals for and the conduct of any and all subsequent operations within the Unit, for so long as there is hydrocarbon production from within the Unit. One-eighth (1/8<sup>th</sup>) of the revenue realized from the sale of such owner's share of production from the initial well, and any subsequent well proposed under the terms of the JOA in which such owner elects not to participate, shall be paid to such mineral interest owner from the date of first production at the times and in the manner prescribed by law for the payment of royalty; or

4. Failure to Make an Election.

Unleased mineral owners who fail to affirmatively elect one of the options listed in 8A above, shall be deemed integrated into the Unit and shall be compensated for the removal of hydrocarbons by the payment of a cash bonus of \$400.00 per net mineral acre, and a 1/8 royalty.

B. Uncommitted Leasehold Working Interest(s) Alternatives:

1. Participate in the well

Participate by paying their proportionate share in the costs of drilling, completing, equipping and operating the initial well, subject to the terms of the JOA, and that each such owner thereafter be bound by the terms of such JOA (whether or not such owner actually executes such agreement), including for purposes of subsequent operations, for so long as there is production of hydrocarbons from within the Unit; or

2. Elect "Non-Consent"

Not participate and become a "Non-Consenting Party" under the JOA with respect to the initial well, and be subject to all of the

non-consent provisions thereunder, until the proceeds realized from the sale of hydrocarbons allocable to the mineral interest subject to said parties' leasehold interest(s) in the initial well, exclusive of reasonable leasehold royalty, shall equal the total recoupment amount described in subparagraphs (a) and (b) of Article VI.B.2 of the JOA, with the non-consent penalty under Article VI.B.2(b) being 600% for the initial well, and/or 400% for each subsequent well drilled on the Unit; or

3. Failure to Make an Election

Uncommitted leasehold working interest(s) owners who fail to timely elect either alternative shall be deemed to have elected Alternative (B2), above.

9. Applicant requests that all parties listed in Finding Nos. 5 and/or 6 (unless dismissed at the request of the Applicant in the Statement of the Case above) be required to elect within **fifteen (15) days** after the effective date of the Order, unless, for cause shown, a shorter or longer period is approved. **ALL INTEGRATED PARTIES SHALL NOTIFY STORM CAT ENERGY CORPORATION, 1125 17<sup>TH</sup> ST., SUITE 2310, DENVER, CO 80202 IN WRITING, OF THE ALTERNATIVE ELECTED.**

10. That the Applicant should be designated to be the operator of the Unit described above.

11. That no objections were filed.

CONCLUSIONS OF LAW

1. That due notice of public hearing was given as required by law and that this Commission has jurisdiction over said parties and the matter herein considered.
2. That the land described in Finding No. 1 has been previously established as a drilling unit.
3. That this Commission has authority to grant said application and force pool and integrate the unleased mineral interest(s) and uncommitted leasehold working interest(s) of said parties under the provisions of Act No. 105 of 1939, as amended.

ORDER

Now, therefore, it is Ordered that:

1. INTEGRATION

All of the unleased mineral interest(s) and/or uncommitted leasehold working interest(s) described in Finding Nos. 5 and/or 6 (unless dismissed at the request of the Applicant in the Statement of the Case above) within the Unit described in Finding No. 1 be and are hereby integrated into one unit for drilling and production purposes.

2. ALLOCATION OF PRODUCTION

The hydrocarbons that are produced and saved from the well or wells assigned to the above described Unit shall be allocated to each separately owned tract embraced therein in the proportion that the acreage of such tract bears to the total acreage in the Unit and shall be considered as if produced from each such tract.

3. OPERATOR TO CHARGE COSTS

The designated operator of the Unit shall have the right to charge to each participating party its proportionate share of the actual expenditures required for the costs of developing and operating the well in the manner set forth in Exhibit "C" of the JOA.

4. ELECTION OF ALTERNATIVES

The owners of the unleased mineral and/or uncommitted leasehold working interests designated in Finding Nos. 5 and/or 6 above (unless dismissed at the request of the Applicant in the Statement of the Case above), in the aforementioned Unit shall have **fifteen (15) days** from the effective date of this order (the "Election Period") to elect one of the alternatives as described in Finding No 8 above. If no such election is made within the Election Period, the owners of unleased mineral interest(s) shall be deemed to have elected under Alternative A4 and uncommitted leasehold working interest(s) owners shall be deemed to have elected under Alternative B3, as described in Finding No 8. Any party choosing to participate or go non-consent or, who by the terms of this Order are deemed non-consent, shall be subject to the election period set forth in the JOA with respect to all subsequent wells drilled on the Unit.

5. RECEIPT OF VALUE OF PRODUCTIONA. Unleased Mineral Interest Owner(s)

In the event the owners of the unleased mineral interest(s) elect Alternative No. A3 (Non-Consent) described in Finding No. 8 above, then the value of the production proceeds attributable to such unleased mineral interest shall be subdivided and paid in accordance with the provisions of Order No. 6 as hereinafter set forth. The value of hydrocarbons produced shall be equal to the proceeds realized from the sale thereof at the well. Upon recoupment by the "Consenting Parties" (as defined in the JOA) of the total recoupment amount described in Finding No. 8A3 above, the production due the interest(s) of said parties shall be paid to them, their heirs, successors or assigns.

B. Uncommitted Leasehold Working Interest Owner(s)

In the event an uncommitted leasehold working interest owner under one or more valid lease(s) elects Alternative No. B2 (Non-Consent) described in Finding No. 8 above, the Consenting Parties shall have the right to receive the hydrocarbon production which would otherwise be delivered or paid to such uncommitted leasehold working interest owner under such lease(s) until such time as the proceeds realized from the sale of such production equals the total recoupment amount described in Finding No. 8B2 above.

The leasehold royalty payable during the recoupment period shall be calculated on the basis of the rate or rates provided in each of the leases creating the rights temporarily transferred pending recoupment.

6. SUBDIVISION OF TRACT ALLOCATION

The revenue realized by the Consenting Parties from the sale of hydrocarbons shall be allocated among the separately owned tracts within the integrated unit and, pending recoupment of the costs and additional sum described at Paragraph No. 5 of this Order, shall be paid to the integrated parties as follows:

A. Unleased Mineral Interest Owner(s)

Unleased mineral interest owners who have elected under Alternative No. A3 (Non-Consent) described in Finding No. 8 above shall have the total allocation given to the tract subdivided into the working interest

and royalty interest portions on the basis of seven-eighths (7/8<sup>th</sup>) of the total allocation being assigned to the working interest portion and one-eighth (1/8<sup>th</sup>) of the total allocation being assigned to the royalty interest portion.

B. Uncommitted Leasehold Working Interest Owner(s)

Leasehold royalty shall be paid according to the provisions of the valid lease(s) existing for each separately owned tract, except where the Commission finds that such lease(s) provide for an excessive, unreasonably high, rate of royalty, as compared with the royalty determined by the Commission to be reasonable and consistent with the royalty negotiated for lease(s) made at arm's length in the general area where the Unit is located, in which case the royalty stipulated in the second paragraph of Paragraph 5B of this Order shall be payable with respect to such lease(s).

7. RECORDS OF UNIT OPERATION

The designated Operator shall, upon request and at least monthly, furnish to the other parties any and all information pertaining to wells drilled, production secured and hydrocarbons marketed from the Unit. The books, records and vouchers relating to the operation of the Unit shall be kept open to the non-operators for inspection at reasonable times.

8. PAYMENT FOR PRODUCTION

During the period of recoupment, the revenue allocable to those owners of the integrated unleased mineral interest(s) who elect Alternative No. A3 (Non-Consent) and to the mineral interest(s) subject to and covered by the integrated uncommitted leasehold working interest(s) whose owners elect or shall be deemed to have elected Alternative No. B2 (Non-Consent), both described in Finding No. 8 above (collectively, the "non-consent interests"), shall be paid to those Consenting Parties that elect to acquire their proportionate share of such non-consent interests pursuant to Paragraph 9 of this Order.

9. SHARING OF NON-CONSENT INTERESTS

The designated Operator shall offer each Consenting Party in the initial well who executes the JOA, or who elects to participate under this Order, prior to the expiration of the Election Period an opportunity to acquire its proportionate share of all non-consent interests in the

initial well pursuant to the terms of Article VI.B.2. of the JOA. The designated Operator shall likewise offer each Consenting Party in the initial well the opportunity to acquire its proportionate share of any leasehold interest acquired by the Applicant as the result of any unleased mineral owner's deemed election under Alternative A4 of Finding No. 8 (collectively, the "A4 Interests"); provided, however, this Paragraph 9 shall not apply to:

- (i) any A4 Interest that is not marketable; or
- (ii) any A4 Interest that is less than a perpetual interest in the mineral estate (i.e. a term interest, life estate or remainder interest) and which must be integrated in order to make perpetual an existing leasehold interest in the Unit.

Any A4 Interest described in subpart (ii) of the immediately preceding sentence shall be retained by the Applicant if the Applicant is the owner of the existing leasehold interest which is made perpetual by such A4 Interest. If the Applicant is not the owner of such existing leasehold interest, the Applicant shall tender such A4 Interest to the owner(s) of the existing leasehold interest that is made perpetual by such A4 Interest.

Any Consenting Party electing to acquire a share of any A4 Interests, pursuant to this paragraph, shall notify the Applicant within five business days after receiving an offer from the Applicant indicating the amount of interest available and the cost of that interest, and immediately reimburse the Applicant for such Consenting Party's proportionate share of the lease bonus payable with respect to such A4 Interests.

10. UNIT OPERATION

The Unit described above shall be operated in accordance with the terms of the JOA and existing rules and regulations and any amendments thereto, of the Arkansas Oil and Gas Commission.

11. DESIGNATED OPERATOR

The Applicant (specifically Storm Cat Energy (USA) Operating Corporation) is hereby designated as operator of and authorized to operate the Unit described above.



12. SIGNED JOA

The Applicant shall provide all parties, except those parties who elect to lease under Alternative A1 or who are deemed to have elected under Alternative A4, both described in Finding No. 8 above, with signed copies of the JOA as adopted by the Commission which shall include an Exhibit "A" showing a before payout and after payout decimal interest for the effected parties, within 30 days from the end of the election period.

This Order shall be effective from and after April 13, 2007; and the Commission shall have continuing jurisdiction for the purposes of enforcement, and/or modifications or amendments to the provisions of this Order. This Order will automatically terminate under any of the following conditions: well drilling operations have not been commenced within one year after the effective date; or one year following cessation of drilling operations if no production is established; or, within one year from the cessation of production from the unit hereby created.

ARKANSAS OIL AND GAS COMMISSION



Lawrence E. Bengal  
Director of Production and Conservation

It is so Ordered by the Commission:

Chris Weiser, Chairman  
Chad White, Vice-Chairman  
Mike Davis  
William L. Dawkins, Jr.  
W. Frank Mortedge  
Carolyn Pollan  
Kenneth Williams  
Charles Wohlford

The following Commissioner(s) were voluntarily disqualified:

Bill Poynter

**EXHIBIT C**

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

# MODEL FORM OPERATING AGREEMENT

# OPERATING AGREEMENT

DATED

March 27, 2007  
year

**OPERATOR**      **Storm Cat Energy (USA) Operating Corporation**

**CONTRACT AREA      Section 12 – Township 11 North, Range 17 West**

COUNTY OR PARISH OF **Van Buren** STATE OF **Arkansas**

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AMERICAN ASSOCIATION OF PETROLEUM  
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT  
WORTH, TEXAS, 76137-2791, APPROVED  
FORM. A.A.P.L. NO. 610 - 1982 REVISED

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## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Storm Cat Energy (USA) Operating Corporation, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

## WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS \*

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

- A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
- B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
- C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.
- D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- E. The term "drilling unit" shall mean the governmental section (or the equivalent thereof) covered by this agreement. For purposes of this agreement, the term "drilling unit" and "Contract Area" shall refer to the same lands.
- F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.
- G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
- H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

\* This agreement shall include the additional defined terms set forth in Article XV.A. hereof.

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

ARTICLE II.  
EXHIBITS

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

- ☒ A. Exhibit "A", shall include the following information:
  - (1) Identification of lands subject to this agreement,
  - (2) Restrictions, if any, as to depths, formations;
  - (3) Percentages or fractional interests of parties to this agreement,
  - (4) Addresses of parties for notice purposes.
- ☒ B. Exhibit "B", Form of Lease.
- ☒ C. Exhibit "C", Accounting Procedure.
- ☒ D. Exhibit "D", Insurance.
- ☒ E. Exhibit "E", Gas Balancing Agreement.
- ☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities
- ☒ G. Exhibit "G", Memorandum of Operating Agreement and Financing Statement
- ☒ H. Exhibit "H", Gas Marketing Provisions

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

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## ARTICLE III. INTERESTS OF PARTIES

### A. Oil and Gas Interests:

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

### B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of one-eighth (1/8<sup>th</sup>) which shall be borne as hereinafter set forth.

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

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

### C. Excess Royalties, Overriding Royalties and Other Payments:

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

### D. Subsequently Created Interests:

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

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

## ARTICLE IV. TITLES

### A. Title Examination:

Title examination shall be made on the drilling unit prior to commencement of drilling operations on the initial well pursuant to Article VI.A. hereof. The opinion or title report will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drilling unit or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions or reports, 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 the leases and/or oil and gas interests included within a drilling unit to be examined by attorneys or landmen on its staff or by outside attorneys or landmen, provided, however, with respect to any subsequent operations conducted on the drilling unit pursuant to Article VI.B.

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hereof. Operator may have the original title opinion or report for the initial well updated by an attorney or landman. Copies of all title opinions or reports shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

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

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys and landmen for title examination (including preliminary, supplemental, shut-in gas royalty opinions or reports and division order title opinions or reports) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions, except as provided for in Article II.10. of the attached COPAS.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or integration orders. This shall not prevent any party from appearing on its own behalf at any such hearing. Operator shall provide Non-Operators with written notice of any such hearing relating to the Contract Area (the "Hearing Notice") no later than ten (10) days prior to the date of such hearing. Any Non-Operator that intends to oppose Operator at such hearing, shall provide prior written notice thereof to all the other parties hereto and, thereafter, such Non-Operator shall not be responsible for any charges that are made to the joint account in connection with such hearing. In such event, those Non-Operators that did not deliver such written notice to Operator shall proportionately bear the cost attributable to the opposing Non-Operator's interest.

All costs incurred by Operator in procuring spacing and integration orders, including fees paid to outside attorneys and landmen, shall be borne by the Drilling Parties.

No well shall be drilled on the Contract Area until after (1) the title to the drilling unit has been examined as above provided, and (2) with respect to the initial well drilled on the drilling unit, title to the drilling unit has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well or (3) with respect to any subsequent wells drilled on the drilling unit, the original title opinion or ownership report for the initial well has been updated as hereinabove provided.

### B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests: and,

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract area by the amount of the interest lost;

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

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

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

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

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

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- (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;
- (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interest; and,
- (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

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

## ARTICLE V. OPERATOR

### A. Designation and Responsibilities of Operator:

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

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

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

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

### C. Employees:

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

### D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area, and 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. If, in Operator's reasonable opinion, Operator is not able to procure a reliable supply of appropriate equipment or services for the Contract Area on a "competitive contract basis", Operator shall have the right to enter into fair and reasonable alternative contractual arrangements to procure such equipment and/or services, so long as the rates charged for such equipment and/or services do not exceed the prevailing rates in the area.

## ARTICLE VI. DRILLING AND DEVELOPMENT

### A. Initial Well:

On or before the 1st day of April, 2008, Operator shall commence the drilling of a well for oil and gas at the following location:

Section 12, Township 11 North, Range 17 West, Surface Hole Location: NE/4 NW/4; Bottom Hole Location: NE/4 SE/4

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

an estimated total depth of 4,513' or a depth reasonable and sufficient to test the Fayetteville Shale unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

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

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

### B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, recomplete, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing or capable of producing in paying quantities, the party desiring to drill, rework, recomplete, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to rework, recomplete, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, inclusive of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with diligence at the risk and expense of all parties hereto; provided, however, (i) said commencement date may be accelerated (i.e. Operator may commence the proposed operation prior to the expiration of such thirty (30) day notice period) if a majority in interest of those parties entitled to participate in such proposed operation agree to do so, and (ii) said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made. In the event Operator elects to commence a proposed operation prior to the expiration of the applicable thirty (30) day notice period, and a party receiving the notice has not yet notified the proposing party of its election to participate or not participate in the cost of such proposed operation, such receiving party shall continue to have until the expiration of the original thirty (30) day response period within which to notify the proposing party of its participation election. Nothing contained herein shall prohibit Operator or the Consenting Parties from actually commencing the proposed operation before the expiration of the notice period nor shall the timing of such commencement affect in any way (i) the validity of a party's election or deemed election or (ii) the applicability of the non-consent provisions of Article VI.B.2 to any party that has elected (or is deemed to have elected) to be a Non-Consenting Party with respect to such operation.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk



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and expense. If any well drilled, reworked, recompleted, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, recompleting, deepening or plugging back of any such well by Consenting Parties, and 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, deepening, recompleting or plugging back of such well, or a completion pursuant to Article VII.D.1. (Option 2), all 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 production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

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

(c) The non-consent penalty for the initial well described in Article VI.A. and for all subsequent wells drilled on the drilling unit shall be as set forth in the integration order for the drilling unit. The non-consent penalty may differ between the initial well and any subsequent wells as set forth in the integration order. The non-consent penalty for any rework, recompletion, or plugging back operation during the recoupment period as described in the next paragraph shall be identical to the non-consent penalty for subsequent wells as established in the integration order for the drilling unit.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. 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 account. 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        hundred percent (x) % 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 VI.B. shall be applicable as between said Consenting Parties in said well.

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

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

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

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 on the first day of the month following the month of payout, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment

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in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, recompleting, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

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

The provisions of this Article shall also apply to the drilling of the initial well described in Article VI.A.

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

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

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

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

### C. TAKING PRODUCTION IN KIND:

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

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil or gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no even for a period in excess of one (1) year.

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In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with the gas balancing agreement attached as Exhibit "E" hereto (the "gas balancing agreement").

In addition, if a party requests in writing that Operator market such party's proportionate share of gas produced from the Contract Area pursuant to the written election procedure described in Section 3.6 of the gas balancing agreement, the marketing of such party's gas shall be governed by the terms of said Section 3.6 and the terms of the gas marketing provisions set forth in Exhibit "H" attached hereto (collectively, the "gas marketing provisions"). If Operator sells a party's share of gas pursuant to the gas marketing provisions, Operator shall be deemed to have satisfied all its obligations with respect to any such gas sold by Operator if (i) the net price received by such party for the sale of such gas is not less than the net price received by Operator for gas produced from the same well and (ii) any charges, costs or fees that are deducted from the price received by such party and that are paid to an affiliate of Operator for the marketing, compression, treating, gathering, and/or transporting of such gas are not greater than those charged by such affiliate to others in arms-length transactions.

### D. Access to Contract Area and Information:

Each Consenting Party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other Consenting Parties with copies of all forms or reports filed with governmental agencies, daily drilling reports (including good faith estimates of current costs and cumulative costs incurred), well logs, and actual monthly oil and gas production and sales volumes and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

### E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who elects not to plug and abandon such well shall immediately take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvageable 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. Failure of a party to make a written election within thirty (30) days shall be deemed an election to consent to the abandonment of the well. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the well bore only for the well proposed to be abandoned. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

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

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

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of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.

## ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

### B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted, the proceeds from the sale of said oil and/or gas and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

### C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an APE setting forth such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

### D. Limitation of Expenditures:

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

☒ Option No. 1: Subject to the provisions of Article XV.I. hereof, all necessary expenditures for the drilling or deepening, testing, completing and equipping of any horizontal well, including necessary tankage and/or surface facilities.

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

2. Rework, Recomplete or Plug Back: Without the consent of all parties, 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

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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.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifty Thousand Dollars (\$ 50,000.00 ) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Fifty Thousand Dollars (\$ 50,000.00 ) but less than the amount first set forth above in this paragraph.

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

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

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

### F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for 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 leasehold estate 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 leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C"; provided, however, if at any time any party is taking its share of production in kind or separately disposing of it, such party shall cause to be paid any and all taxes as to such production.

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

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

### G. Insurance:

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

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

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

**A. Surrender of Leases:**

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto; however, 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, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced 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 wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement, but shall be deemed to be subject to an Operating Agreement identical to this one modified only to reflect the ownership of the acquiring parties and their respective interests therein.

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

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

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement, but shall be deemed to be subject to an Operating Agreement identical to this one modified only to reflect the ownership of the acquiring parties and their respective interests therein.

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

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

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

**C. Disposition of Interests:**

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.

If, at any time the interest of any party is divided among and owned by two 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

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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.

### D. 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.

## ARTICLE IX. INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as amended, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as amended, 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.

## ARTICLE X. CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifty Thousand Dollars (\$ 50,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement ex-

ceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

## ARTICLE XI. FORCE MAJEURE

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

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

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



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## ARTICLE XII. NOTICES

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

## ARTICLE XIII. TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production in paying quantities; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within Ninety (90) days from the date of abandonment of said well.

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

## ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

### A. Laws, Regulations and Orders:

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

### B. Governing Law:

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

### C. Regulatory Agencies:

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

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy, Federal Energy Regulatory Commission, or Internal Revenue Service or predecessor or successor agencies (or any other governmental regulatory agencies, bodies, boards or commissions) to the extent such interpretation or application was made in good faith and with the exercise of reasonable care. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application. All fines, penalties and interest levied by OSHA, DOE, FERC, EPA, FTC, IRS, the Commission or any other legislative body or governmental agency which result from actions taken in good faith and with the exercise of reasonable care shall be charged to the joint account and shall be paid by the parties hereto in accordance with the terms of Article VII.C. hereof.



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

## ARTICLE XV. OTHER PROVISIONS

### A. Definitions.

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

1. The term "Commission" shall mean the Arkansas Oil & Gas Commission or any successor regulatory body having jurisdiction.
2. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the cost to be incurred in conducting an operation hereunder.
3. The term "completion" or "complete" shall mean a single operation intended to complete a well as a producer 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.
4. The term "deepen" or "deepening" 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. The term "deepen" or "deepening" shall not be interpreted to mean further extension of a horizontal drainhole nor shall it be interpreted to pertain to any vertical stratigraphic variations within any particular formation as might be encountered while "steering" during horizontal or directional drilling operations.
5. The term "integration order" shall mean any order by the Commission requiring the integration of any and all leasehold interests, oil and gas interests and other applicable interests within the Contract Area for purposes of operating the Contract Area as one integrated unit pursuant to the terms of this agreement.
6. The term "non-consent well" shall mean any well in which less than all parties have conducted an operation as provided in Article VI.B.2.
7. The term "plug back" or "plugging back" shall mean a single operation whereby a deeper zone is abandoned in order to attempt a completion in a shallower zone.
8. 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.
9. The term "rework" or "reworking" 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.
10. The term "sidetrack" or "sidetracking" shall have the meaning given to such term in Article VI.B.4. hereof.
11. 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.

### B. Parties to Operations.

1. Except as otherwise provided in Article XV.C.3. below, with respect to any non-consent well drilled or deepened pursuant to Article VI.B.2. for which the Consenting Parties have not been fully reimbursed for the amounts provided in Article VI.B., the right to propose and to participate in further operations under Article VI.B. for such non-consent well shall be limited as follows:
  - a. Only a Consenting Party in the non-consent well shall have the right to propose a reworking, plugging back, completion or recompletion operation for such non-consent well, provided that (i) all parties (including Non-Consenting Parties in such non-consent well) shall be entitled to receive notice of any such proposed operation (a "Proposal Notice") and (ii) all Consenting Parties in such non-consent well shall have the right to participate in such operation pursuant to Article VI.B.
  - b. Only a Consenting Party in the non-consent well shall have the right to propose a deepening or sidetracking operation for such non-consent well, but all parties (including Non-Consenting Parties in such non-consent well) shall be entitled to receive the Proposal Notice for, and shall have the right to participate in, such

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sidetracking or deepening operation pursuant to the terms of Article VI.B. However, those Non-Consenting Parties that elect to participate in such deepening or sidetracking operation shall reimburse the Consenting Parties in accordance with Article VI.B.4. in the event of a sidetracking operation and in accordance with Article XV.B.(3) below in the event of a deepening operation.

2. If less than all the parties elect to participate in a drilling or deepening operation proposed pursuant to Article VI.B., 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 formation of which the parties were given notice under Article VI.B.1. (the "Initial Proposed Objective"). Such well shall not be drilled to a depth deeper than the Initial Proposed Objective without first complying with Article XV.B.(3) to afford the Non-Consenting Parties the opportunity to participate in such deeper drilling operation.

3. In the event any Consenting Party desires to drill or deepen a non-consent well to a depth below the Initial Proposed Objective, such Consenting Party shall give notice thereof, complying with the requirements of Article VI.B.1., to all parties (including Non-Consenting Parties in such non-consent well). Thereupon, Article VI.B. shall apply and all parties receiving such notice shall have the right to participate or not participate in the drilling of such well pursuant to said Article VI.B. In the event, however, any Non-Consenting Party elects to participate in the deeper drilling 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 drill deeper is made prior to the abandonment or proposed abandonment of such non-consent well as a dry hole or prior to completion of such non-consent well as a commercial well, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of all costs and expenses incurred in drilling such non-consent well from the surface to total depth, as deepened or proposed to be deepened, which such Non-Consenting Party would have paid if such non-consent well had initially been proposed to be drilled to such depth and such Non-Consenting Party had agreed to participate therein; provided, however, all costs for testing and completion or attempted completion of such non-consent well that were incurred by the Consenting Parties prior to the point of actual operations to drill deeper than the Initial Proposed Objective shall be for the sole account of the Consenting Parties.

- b. If the proposal to drill deeper is made for a non-consent well that has been previously completed as a commercial well but is no longer producing in paying quantities, such Non-Consenting Party shall, in addition to paying all costs of re-entering such non-consent well and deepening the same below its total depth, also reimburse Consenting Parties for the lesser of (i) such Non-Consenting Party's proportionate part (based on the percentage of such non-consent well the Non-Consenting Party would have owned had it previously participated in such non-consent well) of the salvage materials and equipment remaining in the hole and salvage surface equipment used in connection with such deeper drilled well or (ii) the amounts yet unrecovered under Article VI.B. that the Consenting Parties are entitled to recover from such Non-Consenting Party's relinquished interest in such non-consent well.

The foregoing shall not imply a right of any Consenting Party to propose any deeper drilling operation for a non-consent well prior to completion of the drilling of such non-consent well to casing point for its Initial Proposed Objective without the consent of all other Consenting Parties.

The provisions of this Article XV.B. shall not apply to the takeover of a well by the Non-Consenting Parties in the event all Consenting Parties elect to permanently plug and abandon the same, but such right of the Non-Consenting Parties shall be governed by Article VI.E.3.

4. It is agreed that no reworking, deepening, plugging back, completion, recompletion or sidetracking operation shall be conducted on 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. Sequence of Operations.

1. When any well authorized under the terms of this agreement, either by all parties, or by one or more but less than all parties, has been drilled to its objective depth and the parties participating therein cannot mutually agree upon the sequence and timing of further operations regarding such well, the following proposals shall control in the order hereafter enumerated:

- a. A proposal to do additional logging, coring or testing, provided that, in the event a disagreement exists as to the testing to be performed on the well at any depth, testing shall be performed as follows:
  - i) Any logging, coring or testing provided in a prognosis or AFE shall be conducted for the joint account;
  - ii) Any additional logging, coring or testing shall be performed by the Operator at the sole cost, risk, expense and liability, including indemnification against loss of hole, of the parties electing to participate in such additional operations, and such participating parties shall be exclusively entitled to the information obtained therefrom; provided, however, no such additional testing

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shall be performed on a well then producing in paying quantities unless all working interest owners in such well consent to such testing.

- b. A proposal to deepen said well to its approved objective formation, if not theretofore seen;
- c. A proposal to attempt to complete the well at its objective depth;
- d. A proposal to plug back and attempt to complete said well in prospective zones at lesser depths, with priorities given in descending order;
- e. A proposal to deepen the well below the objective formation, with priorities given in ascending order.
- f. A proposal to sidetrack the well to a new bottom hole location;
- g. A proposal to plug and abandon the well.

2. In the event a well drilled pursuant hereto is in such a condition that, at the time the participating parties are considering any of the above proposals that, in the opinion of Operator, a reasonable, prudent operator would not conduct the operations contemplated by a particular proposal for fear of placing the hole, life or property in jeopardy of losing same prior to completing such well at its objective depth, such election shall not be given the priority hereinabove set forth.

3. If one or more, but less than all, parties elect to participate in a completion or recompletion attempt on a vertical or directional vertical well (collectively, a "vertical well") pursuant to Article VII.D.1. (Option No. 2), the provisions of Article VI.B.2. shall apply to the operations thereafter conducted by less than all parties; provided, however, that Article VI.B.2. shall apply separately to each such completion or recompletion attempt undertaken thereunder, 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 on such vertical well, regardless whether the Consenting Parties as to earlier completions or recompletions have recouped their costs pursuant to Article VI.B.2. In this regard, the parties agree that any recoupment of costs by a Consenting Party in a particular completion or recompletion attempt shall be made solely from the production attributable to the zone in which the completion or recompletion attempt is made. An 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 salvageable 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 has elected to participate in such completion or recompletion attempt. For the purpose of the preceding sentence, the term "zone" shall be limited to the interval in the wellbore that is to be perforated.

### D. Non-Payment.

Subject to Article XV.D.4. hereof, if any party (including the Operator) fails to pay its share of any cost, including any advance which it is obligated to make under Article VII.C or any other provision of this Agreement, within the period required for such payment, then, in addition to the other remedies in this Agreement, the Operator (or any Non-Operator if the Operator is the party in default) may pursue any of the following remedies:

1. Suspension of Rights. Operator (or the Non-Operators if Operator is the party in default) may deliver to the party in default by certified mail, return receipt requested a Notice of Default, which shall specify the default, and specify that 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 Agreement. If such default is not cured within ten (10) days after the receipt by the defaulting party of such Notice of Default, Operator (or the Non-Operator if Operator is the Party in default) may suspend any or all of the rights of the defaulting party granted by this Agreement until the default is cured, without prejudice to the right of any non-defaulting party to continue to enforce the obligations of the defaulting party theretofore accrued or thereafter accruing under this Agreement. If Operator is the party in default, the Non-operators shall in addition have the right, by vote of 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 operations conducted hereunder during the period of such default, and the right to elect to participate in an operation proposed under Article VI.B. of this Agreement.
2. Suit for Damages. Operator (or the Non-Operators if Operator is the party in default) may sue to collect the amounts in default together with all documented, direct damages suffered by the non-defaulting parties as a result of the default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate specified in Section I.(3) of the Accounting Procedure attached to this Operating Agreement as Exhibit "C".
3. Deemed Non-Consent. Operator (or any Non-Operator if the Operator is the party in default) may deliver a written Notice of Non-Consent Election by certified mail, return receipt requested or by overnight delivery with tracking confirmation, to the defaulting party at any time after the expiration of the ten-day 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 non-paying 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 VII.D.1

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(Option No. 2) 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 party may not elect to sue for the unpaid amount pursuant to Article XV.D.2. Until the delivery of such notice of Non-Consent Election to the non-paying party, such party shall have the right to cure its default by paying the unpaid billing plus interest at the rate set forth in Section I.(3) of the attached Accounting Procedure plus any costs or damages incurred by the non-defaulting parties as a result of the default. Any interest relinquished pursuant to this Article XV.D. shall be offered by Operator (or by the Non-Operators if Operator is the defaulting party) to the non-defaulting parties in proportion to their interests.

4. Good-Faith Disputes. In the event a party disputes in good faith the existence of a default on his part that is the subject of a Notice of Default, such party may avoid the imposition of the remedies for such default contained in this agreement by paying the disputed amount into an account at a bank requiring the signatures of both such party and the Operator (or, if the Operator is the party in default, a Non-Operator designated by the Non-Operators) in order to release such funds. Such funds shall be released to the party entitled thereto upon the resolution of the issue raised by the objecting party.

5. Costs and Attorney's Fees. In the event any party shall ever be required to bring legal proceedings in order to collect any sums due from any other party or any to enforce any other right under this agreement, then the prevailing party in such action shall also 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.

6. Financing Statement. Upon request of Operator, the Non-Operators agree to execute a recordable financing statement sufficient and appropriate under the applicable state uniform codes or the Uniform Commercial Code, as applicable, to perfect a security interest by and between the parties hereto to the same degree and covering the same properties and rights as set forth in Article VII.B. above.

E. Press Release.

No party hereto shall, directly or indirectly, make or authorize any press or public information release or announcements concerning the execution, continuation or termination of this Operating Agreement, or the results of any operation conducted hereunder, without the written approval of all parties hereto, unless such release(s) or announcement(s) refer solely and only to the party making the release or announcing such information and in no way disclose the identity or participation of any other party. Notwithstanding the foregoing, a party may make any press release or other disclosure regarding this agreement without the consent of the other parties to the extent required under any applicable law, rule or regulation.

F. Delay Rentals, Shut-in Payments & Relinquishments.

1. Operator shall use its best efforts to notify each Non-Operator of its recommendation concerning the payment of delay rentals or shut-in payments under any leases, as they may fall due, in writing at least sixty (60) days in advance of the date when such payment is due together with due dates for such payments, Operator's recommendations for the payment or non-payment thereof, and a general description of the lands covered by same. Non-Operator shall have thirty (30) days from the receipt of such notice to respond in writing to such recommendation. The failure of Non-Operator to timely respond shall be deemed its election to participate as to Operator's recommendation.

2. In the event any party having the right to make an election elects to relinquish its interest in any lease subject hereto or not participate in a delay rental or shut-in payment which one or more of the parties elects to make, and such payment is actually made, then each party electing to so relinquish its interest and/or not participate in such payment ("Relinquishing Party") shall promptly execute and deliver to the parties electing to participate therein and/or who made such payment, an assignment of all the Relinquishing Party's right, title and interest in and to the lease for which such payment was made. Such assignment shall be free and clear of any overriding royalty interests, net profits interests, or other burdens or encumbrances other than the lessor's royalty and any burdens listed on Exhibit "A" and Article VII.B hereof. Such leases shall no longer be deemed subject to this Agreement, but shall be deemed subject to an agreement identical to this Operating Agreement reflecting the proper owners and interests in such leases. Operator shall not be liable to Non-Operators for failure to timely or properly make any delay rental or shut-in royalty payment.

3. If any party hereto elects to relinquish its rights in and to any lease by means of a release, then such party ("Relinquishing Party") shall use its best efforts to notify the other parties hereto of same not less than forty-five (45) days prior to such proposed relinquishment. Within 15 days after receipt of such notice, each party shall notify the Relinquishing Party in writing if it elects to accept an assignment of the interest to be relinquished, in the proportion that its interest herein bears to the total interest of the parties who also elect to accept such an assignment, which such assignment shall be made free and clear of any and all burdens other than those specifically provided for herein.

4. The failure of a notified party to timely respond in writing to any notice from a Relinquishing Party, as herein provided, shall be deemed such party's election not to accept any such relinquished interest. Promptly after expiration of the 15 day election period, the Relinquishing Party shall either assign its relinquished leases or release same of record, as appropriate.

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## G. Substitute Wells.

If, prior to reaching the proposed depth in any well drilled pursuant hereto, any condition, including but not limited to, loss or partial loss of circulation, water flow, domal formation, abnormal pressure, heaving shale, impenetrable substances or mechanical/material failures are encountered which preclude further drilling using normal economic and prudent procedures, the parties participating in such well shall have the option, but not the obligation, to drill a substitute well therefor, at a mutually agreeable location between the parties participating in such well, but in no event having a proposed bottomhole location greater than 300' from the preceding well. Any such substitute well must be commenced within ninety (90) days after abandonment of the preceding well and same shall be deemed, for all purposes, as the well for which it is a substitute.

## H. Termination of Operations.

Upon the commencement of an operation for the drilling, reworking, sidetracking, plugging back, deepening, testing, completion, recompletion or plugging of any well hereunder, including but not limited to the Initial Well, such operation shall not be terminated without consent of parties bearing 75% of the costs of such operation; provided, however, that in the event granite or other practically impenetrable substances 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 VIL.D. or V.I.E. shall thereafter apply to such operation, as appropriate subject to the other provisions hereof. In such event, it shall be conclusively deemed that the subject well has reached its authorized depth as provided in the applicable AFE for purposes of the Operating Agreement and an election is thereby due as provided hereinabove.

## I. Advance Payments and Defaults.

1. In addition to the rights and obligations contained in Article VII.C., when the operations contemplated hereunder and set forth in an AFE involve the drilling of any well, Operator shall have the right to demand and receive from time to time from each Non-Operator payment in advance for their respective shares of the estimated amount of financial liability to be incurred during the drilling of such well as follows:

- a. If the proposed well is a vertical well or a directional vertical well (as contemplated by Article VIL.D.1. Option No. 2), each Non-Operator shall be required to fund its proportionate share of the total estimated cost to drill (or deepen) and test the well (collectively, the "Dry Hole Costs"), as such Dry Hole Costs are set forth in the AFE for such vertical or directional vertical well; and
- b. If the proposed well is a horizontal well (as contemplated by Article VIL.D.1. Option No. 1), each Non-Operator shall be required to fund its proportionate share of the total estimated cost to drill (or deepen), test and complete the well, (collectively, the "Completed Well Costs"), as such Completed Well Costs are set forth in the AFE for such horizontal well.

Except as otherwise provided in the last sentence of this Article XV.I.1, if the advance payment is for the Dry Hole Costs of a vertical or directional vertical well or the Completed Well Costs for a horizontal well, then the invoice for such advance payment shall not be issued more than sixty (60) days prior to the anticipated spud date for the applicable well. If the advance payment relates to a horizontal well for which Operator elects to (i) drill all or a portion of the vertical section of such horizontal well with a drilling rig that is not capable of drilling the horizontal section of such horizontal well (a "Surface Rig") and (ii) commence the drilling of the horizontal section of such horizontal well later than thirty (30) days following the rig release date for the Surface Rig, then the invoice for such advance payment shall not be issued more than sixty (60) days prior to the date that a drilling rig capable of drilling the horizontal section of such horizontal well (a "Horizontal Rig") is scheduled to commence drilling operations on such horizontal well. If any such vertical or horizontal well is not spud within sixty (60) days of the date of Operator's advance invoice, Operator will refund the advance payment upon written request of Non-Operator.

Once the integration of the drilling unit has occurred, the Operator will circulate an original Memorandum of Operating Agreement and Financing Statement (Exhibit "C") to all Participating Parties, and, once the Operator has used its best efforts to cause such Memorandum to be signed by all parties, the Operator shall have the Memorandum filed of record in the county in which the drilling unit is located. The Operator shall, in any event, sign and record the Memorandum in the county in which the drilling unit is located the week following the receipt of the integration order for the drilling unit. The Operator is precluded from making any advance payment requests until such memorandum is filed of record.

2. Notwithstanding anything herein to the contrary, in addition to all other rights and remedies, if Operator does not receive Non-Operator's payment of the relevant invoiced amount within fifteen (15) days after the delivery by Operator of such invoice, Operator may then notify the relevant Non-Operator by certified mail, return receipt requested, or by overnight delivery with tracking information, of the unpaid invoice. In the event such invoiced amount is not paid and delivered to Operator within ten (10) days of Operator's above notice by certified mail, or such overnight delivery, then Operator may, at its election, regard such Non-Operator as a Non-Consenting party and such party shall be subject to the non-consent provisions set forth in Article VI.B.2 with respect to any such sums unpaid by said Non-Operator.

3. If, at casing point of any vertical or directional well drilled hereunder, Operator elects to attempt completion of the well, or for any reworking, recompletion, deepening, sidetracking or other operations proposed pursuant to the terms of this agreement, Operator shall have the right to demand and receive from any Non-Operator, within fifteen (15) days of

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Non-Operator's receipt of written demand, advance payment or security for payment (in a form solely acceptable to Operator) in the same manner and with the same results for failure to comply as hereinabove provided.

### J. Horizontal Wells

1. Notwithstanding anything contained herein to the contrary, (i) the provisions of Article VII.D.1 Option No. 1 shall apply to any "horizontal well" (hereinafter defined) proposed hereunder, and (ii) the provisions of Article VII.D.1. Option No. 2 shall apply to all other wells proposed hereunder that are not expressly proposed as "horizontal wells". To be effective as a "horizontal well proposal", such proposal must include an AFE and other accompanying documents that clearly stipulate that the well being proposed is a horizontal well. For purposes of this agreement, a "horizontal well" is defined as a well drilled, completed or recompleted in a manner in which the horizontal component of the completion interval in the objective formation(s) exceeds the vertical component thereof and which horizontal component exceeds a minimum of one hundred feet (100') in the objective formation(s). As to any possible conflicts that may arise during the completion phase of a horizontal well, priority shall be given first to a lateral drain hole of the authorized depth, and then to objective formations in ascending order above the authorized depth, and then to objective formations in descending order below the authorized depth.

2. Operator shall have the right to cease drilling a horizontal well at any time, for any reason, and such horizontal well shall be deemed to have reached its objective depth so long as Operator has drilled such horizontal well to the objective formation and has drilled laterally in the objective formation for a distance which is at least equal to fifty percent (50%) of the length of the total horizontal drainhole displacement (displacement from true vertical) proposed for the operation.

### K. Integration Order

Operator and Non-Operators recognize that the drilling unit covered by this agreement is and/or may be subject to an integration order issued by the Commission under § 15-72-304 of the Arkansas Code. Pursuant to the terms of any such integration order, (i) all tracts and interests included within the drilling unit shall be integrated for the development or operation thereof for oil and gas, (ii) all operations to be conducted on the drilling unit shall be proposed and conducted in accordance with the terms of this Agreement (whether or not the owners of the leasehold interests and oil and gas interests within the drilling unit actually execute this Agreement) and (iii) the nonconsent provisions contained in Article VI.B.2. of this Agreement shall apply to all "nonparticipating owners" (as such term is used in § 15-72-304) in the drilling unit.

### L. Non-Drilling Operations

Notwithstanding any provision to the contrary contained in this agreement, Operator shall have the right to undertake, on behalf of the joint account, the installation of production facilities, gathering lines, compression facilities and other transportation or marketing facilities, and to conduct additional work with respect to a well drilled hereunder or other similar project reasonably estimated to require an expenditure in excess of the amount first set forth above in Article VII.D.3. (except in connection with an operation required to be proposed under Article VI.B.1., which shall be governed exclusively by that Article) so long as Operator first delivers such proposal to all parties entitled to participate therein and, within thirty (30) days thereof, secures the written consent of one or more Consenting Parties owning at least a majority in interest of the oil and gas leasehold interests affected by such proposal. In the event such consent is obtained by Operator, each Consenting Party shall bear its proportionate share of all costs associated with such project, including each such Consenting Party's proportionate share of the costs that would otherwise be attributable to the party or parties who elect, or are deemed to have elected, not to participate therein. Each such non-participating party shall be considered a Non-Consenting Party as to such project and shall release and relinquish forever to the Consenting Parties, proportionately, all of such Non-Consenting Party's interest in, and right to utilize, the facilities included within such project (the "Subject Facilities"), unless and until such Non-Consenting Party and the Consenting Parties execute a mutually agreeable form of Facilities Sharing Agreement that permits the Non-Consenting Party to utilize the Subject Facilities for an agreed upon fee.

### M. Operator as Independent Contractor: Duties of the Parties

1. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators as to the means or manner of such performance but only 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-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator vis-à-vis any third party.
2. In their relations with each other under this agreement and any other agreement relating to the Contract Area, the parties shall not be considered fiduciaries or to have a fiduciary relationship, but rather shall be free to act on an arm's-length basis in accordance with their own perceptions of their respective self interests. NO PARTY SHALL BE LIABLE TO ANY OTHER PARTY HERETO FOR ANY LOST OR PROSPECTIVE PROFITS OR ANY OTHER SPECIAL, PUNITIVE, EXEMPLARY, CONSEQUENTIAL, INCIDENTAL OR INDIRECT LOSSES OR DAMAGES (IN TORT, CONTRACT OR OTHERWISE) UNDER OR IN RESPECT OF THIS AGREEMENT OR ANY OTHER AGREEMENT RELATING TO THE CONTRACT AREA OR FOR ANY FAILURE OF PERFORMANCE THEREUNDER, HOWSOEVER CAUSED, WHETHER OR NOT ARISING FROM SUCH PARTY'S SOLE, JOINT OR CONCURRENT NEGLIGENCE, STRICT LIABILITY, BREACH OF CONTRACT, OR OTHER FAULT OR RESPONSIBILITY.

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

N. Services Performed by an Affiliate:

Operator shall have the right (without the consent of the Non-Operators) to employ affiliates of Operator in connection with any of the operations conducted hereunder, so long as the rates charged by any such affiliate do not exceed the then current prevailing rates in the area for comparable equipment and/or services.

O. Data to be Provided by Operator:

In addition to the information provided under Article VI.D. above, when requested in writing, Operator shall provide to the requesting Consenting Parties in each well drilled on the Contract Area weekly reports of the daily production of oil, gas and other hydrocarbons produced from each such well, together with the tubing pressure, choke size, casing pressure, water production volumes, hour/days down and line pressure associated therewith. These weekly production reports shall commence the first week following the date of first production and shall continue for a period of six (6) months following the date of first production. It is understood that each Consenting Party shall own and have rights to all data for which it has paid its proportionate share of costs, and Operator shall not preclude any party from participating in any joint account operation that would generate such data.

P. Billing Additional Interests:

Notwithstanding the provisions of this Agreement and of the accounting procedure attached as Exhibit "C", the parties to this Agreement specifically agree that in no event during the term of this Agreement shall Operator be required to make more than one billing for the entire interest credited to each party on Exhibit "A". It is further agreed that if any party to this Agreement (hereinafter referred to as "Selling Party") disposes of part of the interest credited to it on Exhibit "A", the Selling Party will be solely responsible for billing its assignee(s), and shall remain primarily liable to the other parties for the interest(s) assigned and shall make prompt payment to Operator for the entire amount of statements and billings rendered to it. It is further understood and agreed that if Selling Party disposes of all of its interest as set out on Exhibit "A", whether to one or several assignees, Operator shall continue sending statements and billings to the Selling Party for the interest conveyed until such time as Selling Party has designated and qualified one assignee to receive the billing for the entire interest. In order to qualify one assignee to receive the statements and billings for the entire interest credited to the Selling Party on Exhibit "A", Selling Party shall furnish to Operator the following:

1. Written notice of the conveyance and photostatic or certified copies of the assignments by which the transfer was made.
2. The name of the assignee to be billed and, if there are two (2) or more assignees, a written statement signed by one such assignee in which it consents to (i) receive statements and billings for the entire interest credited to the Selling Party on Exhibit "A" hereof, (ii) handle any necessary sub-billings in the event it does not own the entire interest credited to the Selling Party on Exhibit "A" and (iii) remain primarily liable to the other parties for any portion of such interest that is owned by another party.

Q. Disbursement of Royalties:

If a purchaser of any oil, gas or other hydrocarbons produced from the Contract Area declines to make disbursements of all royalties, overriding royalties, working interests and other payments out of, or with respect to, production revenues attributable to such production, Operator may, at its option, or if required by state law, make disbursements of royalties on behalf of any Non-Operator who requests in writing that Operator do so. Each Non-Operator for whom such disbursement is made shall furnish Operator with the following:

1. Such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas, or other hydrocarbons directly from the purchaser thereof; and
2. An initial list of names, addresses, and interests (to an eight place decimal), on a tract, drilling unit, purchase contract or other basis as, in the opinion of Operator, is necessary for efficient administration, for all royalty, overriding royalty and other interest owners who are entitled to proceeds from the sale of production attributable to such Non-Operator's interest. Any changes to the initial list shall be furnished promptly to Operator in writing.

Operator shall use its best efforts to make disbursements and shall not be liable for any underpayment or failure to pay unless it is the result of gross negligence or willful misconduct. Any Non-Operator for whom such disbursements are made hereby agrees to indemnify and hold harmless Operator for any loss, including court costs and attorney's fees, which may be incurred as a result of Operator's making such disbursements in the manner prescribed by Non-Operator.

R. Article VIII.B. Continued:

Notwithstanding anything to the contrary contained herein, each party committing a lease or leases to this Agreement shall have the option, upon the expiration of each lease, to renew or extend such lease and to bear the renewal or extension costs and expenses and thereby retain its original interest and title in the lands covered by said lease. By exercising such option, the parties' working

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interest shall remain unchanged. If the original lease owner does not exercise its option within sixty (60) days after the expiration date of any such lease, the renewal or extension lease will then be subject to the terms of this Article as written above. If any working interest owner other than the original lease owner renews or extends the lease, the renewing or extending party shall furnish the original lease owner an itemized statement of the complete renewal or extension costs and expenses of such renewal or extension lease. The original lease owner shall have sixty (60) days after the receipt of such itemized statement to reimburse the renewing or extending party in full. Failure of the original lease owner to do so shall result in the forfeiture of its option hereunder. The provisions hereof shall only apply to leases or portions of leases located in the Contract Area.

**S. Mutuality:**

The parties hereto acknowledge and declare that this Agreement is the result of extensive negotiations between themselves. Accordingly, in the event of any ambiguity in this Agreement, there shall be no presumption that this instrument was prepared solely by either party hereto.

ARTICLE XVI.  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 17<sup>th</sup> day of March, (year) 2007.  
Storm Cat Energy (USA) Operating Corporation, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles \_\_\_\_\_, XV, and as otherwise reflected in the document, as approved by the Commission \_\_\_\_\_, have been made to the form.

OPERATOR

**STORM CAT ENERGY (USA) OPERATING CORPORATION**

**Keith J. Knapstad**  
Executive Vice President & COO

## NON-OPERATORS



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

interest shall remain unchanged. If the original lease owner does not exercise its option within sixty (60) days after the expiration date of any such lease, the renewal or extension lease will then be subject to the terms of this Article as written above. If any working interest owner other than the original lease owner renews or extends the lease, the renewing or extending party shall furnish the original lease owner an itemized statement of the complete renewal or extension costs and expenses of such renewal or extension lease. The original lease owner shall have sixty (60) days after the receipt of such itemized statement to reimburse the renewing or extending party in full. Failure of the original lease owner to do so shall result in the forfeiture of its option hereunder. The provisions hereof shall only apply to leases or portions of leases located in the Contract Area.

S. Mutuality:

The parties hereto acknowledge and declare that this Agreement is the result of extensive negotiations between themselves. Accordingly, in the event of any ambiguity in this Agreement, there shall be no presumption that this instrument was prepared solely by either party hereto.

ARTICLE XVI.  
MISCELLANEOUS

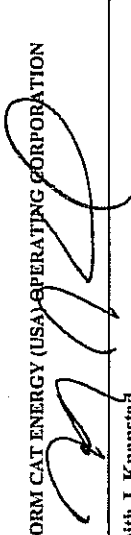
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This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 17<sup>th</sup> day of March, (year) 2007.  
Storm Cat Energy (USA) Operating Corporation, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles          XV, and as otherwise reflected in the document, as approved by the Commission                                 , have been made to the form.

OPERATOR

STORM CAT ENERGY (USA) OPERATING CORPORATION



Keith J. Knappstad  
Executive Vice President & COO

NON-OPERATORS

**EXHIBIT "A"**

*Attached to and made part of that certain Operating Agreement dated March 17, 2007, by and between Storm Cat Energy (USA) Operating Corporation, as Operator, and Non-Operators.*

(1) DESCRIPTION OF LANDS SUBJECT TO THIS AGREEMENT:

Section 12 of Township 11 North, Range 17 West  
Van Buren County, AR

(2) RESTRICTIONS, IF ANY AS TO DEPTHS, FORMATIONS, OR SUBSTANCES:

**There are no restrictions.**

**PERCENTAGES OF PARTIES TO THIS AGREEMENT:**

<u>Owner</u>	<u>Interest</u>
Storm Cat Energy (USA) Corporation	%
	%
	%
	100.00000%

\* The interests of the parties as set forth above are based on information now available and may be changed if additional information or data becomes available. If such additional information/data is received, it is agreed that the above percentage interest will adjusted to reflect same, effective as of the date of this agreement

(4) OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

All the oil and gas leases and oil and gas interests owned by the parties hereto insofar and only insofar as such oil and gas leases and oil and gas interests are included within the Contract Area covered hereby.

(5) ADDRESSES OF PARTIES FOR NOTICE PURPOSES

**Storm Cat Energy (USA) Corporation**  
**1125 17<sup>th</sup> Street, Suite 2310**  
**Denver, CO 80202**

Telephone: 303-991-5070  
Fax: 303-991-5075

Telephone: \_\_\_\_\_  
Fax: \_\_\_\_\_

Telephone: \_\_\_\_\_  
Fax: \_\_\_\_\_

EXHIBIT "B"

PRODUCERS 86 PAID-UP [REV.1]—ARKANSAS FORM NO. 357

OIL AND GAS LEASE  
(Paid-up Lease-No Delay Rentals)

THIS AGREEMENT, made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_\_, by and between \_\_\_\_\_

whose mailing address is \_\_\_\_\_ hereinafter called Lessor (whether one or more), and \_\_\_\_\_ hereinafter called Lessee:

WITNESSETH: That Lessor, for and in consideration of \_\_\_\_\_ Ten And More \_\_\_\_\_ Dollars (\$10.00 & more) and other good and valuable consideration in hand paid, receipt of which is hereby acknowledged, and of the agreements of Lessee hereinafter set forth, hereby grants, demises, leases and lets exclusively unto said Lessee the lands hereinafter described for the purpose of prospecting, exploring by geophysical and other methods, drilling, mining, operating for and producing oil or gas, or both, including, but not as a limitation, casinghead gas, casinghead gasoline, gas-condensate (distillate) and any substance, whether similar or dissimilar, produced in a gaseous state, together with the right to construct and maintain pipe lines, telephone and electric lines, tanks, powers, ponds, roadways, plants, equipment, and structures thereon to produce, save and take care of said oil and gas, and the exclusive right to inject air, gas, water, brine and other fluids from any source into the subsurface strata and any and all other rights and privileges necessary, incident to, or convenient for the economical operation of said land, alone or conjointly with neighboring land, for the production, saving and taking care of oil and gas and the injection of air, gas, water, brine, and other fluids into the subsurface strata, said lands being situated in the \_\_\_\_\_ County of \_\_\_\_\_ State of Arkansas, and being described as follows, to-wit:

of Section \_\_\_\_\_ Township \_\_\_\_\_ Range \_\_\_\_\_ it being the purpose and intent of Lessor to lease, and Lessor does hereby lease, all of the lands or interests in lands owned by Lessor which adjoin the lands above described or which lie in the section or sections herein specified whether or not herein completely and accurately described, together with and including any accretions thereto which may have formed, may now be forming or may hereafter form. For all purposes of this lease, said lands shall be deemed to contain \_\_\_\_\_ acres.

Subject to the other provisions herein contained, this lease shall remain in force for a term of \_\_\_\_\_ years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced from the above described land or drilling operations are continuously prosecuted as hereinafter provided. "Drilling Operations" includes operations for the drilling of a new well, the reworking, deepening or plugging back of a well or hole or other operations conducted in an effort to obtain or re-establish production of oil or gas; and drilling operations shall be considered to be "continuously prosecuted" if not more than 120 days shall elapse between the completion or abandonment of one well or hole and the commencement of drilling operations on another well or hole. If, at the expiration of the primary term of this lease, oil or gas is not being produced from the above described land but Lessee is then engaged in drilling operations, this lease shall continue in force so long as drilling operations are continuously prosecuted; and if production of oil or gas results from any such drilling operations, this lease shall continue in force so long as oil or gas shall be produced. If after the expiration of the primary term of this lease, production from the above described land should cease, this lease shall not terminate if Lessee is then prosecuting drilling operations, or within 120 days after each such cessation of production commences drilling operations, and this lease shall remain in force so long as such operations are continuously prosecuted, and if production results therefrom, then as long thereafter as oil or gas is produced from the above described land.

In consideration of the premises, Lessee covenants and agrees:

1st, To deliver, free of cost, to Lessor at the wells, or to the credit of Lessor in the pipeline to which the wells may be connected, the equal \_\_\_\_\_ (\_\_\_\_\_) part of all oil and other liquid hydrocarbons produced and saved from the leased premises, or, at Lessee's option, to pay to Lessor for such \_\_\_\_\_ (\_\_\_\_\_) royalty the market price at the well for such oil and other liquid hydrocarbons of like grade and gravity prevailing on the day such oil and other liquid hydrocarbons are run from the lease.

2nd, Lessee shall pay Lessor \_\_\_\_\_ (\_\_\_\_\_) of the proceeds derived from the sale of all gas at the well (including substances contained in such gas) produced, saved, and sold by Lessee. Proceeds are defined as the actual amount received by the Lessee for the sale of said gas in an arm's length, non-affiliated transaction. In the event that the sale is to an Affiliate ("Affiliate" being defined as having a ten percent (10%) common ownership), then the proceeds derived from the sale of all gas shall be a price no less than that received from any other purchaser within the governmental township and range in which the lease is situated.

The consideration paid to Lessor for this lease includes consideration in lieu of delay rental provisions and the rights and obligations of the parties hereunder shall be the same as if this lease contained provisions for the payment of periodic delay rentals throughout the primary term hereof and each such delay rental had been timely paid and accepted by Lessor.

If a well capable of producing gas or gas and gas-condensate in paying quantities located on the leased premises (or on acreage pooled or consolidated with all or a portion of the leased premises into a unit for the drilling or operation of such well) is at any time shut in and no gas or gas-condensate therefrom is sold or used off the premises or for the manufacture of gasoline or other products, nevertheless such shut-in well shall be deemed to be a well on the leased premises producing gas in paying quantities and this lease will continue in force during all of the time or times while such well is so shut in, whether before or after the expiration of the primary term hereof. Lessee shall use reasonable diligence to market gas or gas and gas-condensate capable of being produced from such shut-in well but shall be under no obligation to market such products under terms, conditions or circumstances which, in Lessee's judgment exercised in good faith, are unsatisfactory. Lessee shall be obligated to pay or tender to Lessor within 45 days after the expiration of each period of one year in length (annual period) during which such well is so shut in, as royalty, an amount equal to \$1.00 per acre for the acreage covered by this lease as to which the leasehold rights are, at the end of such annual period, owned by the Lessee making such payment; provided that, if Lessor owns less than the full and entire royalty interest in such acreage, such payments shall be such part (calculated on a royalty-acre basis) of said amount as Lessor's royalty interest bears to the full and entire royalty interest in such acreage; and provided further that, if gas or gas-condensate from such well is sold or used as aforesaid before the end of any such annual period, or if, at the end of any such annual period, this lease is being maintained in force and effect otherwise than by reason of such shut-in well, Lessee shall not be obligated to pay or tender, for that particular annual period, said sum of money. Such payment shall be deemed a royalty under all provisions of this lease. Such payment may be made or tendered to Lessor \_\_\_\_\_ AT LESSOR'S ABOVE ADDRESS \_\_\_\_\_, which bank and its successors shall continue as the depository regardless of changes in the ownership of said land or the right to receive royalty hereunder. Royalty ownership as of the last day of each such annual period as shown by Lessee's records shall govern the determination of the party or parties entitled to receive such payment.

If Lessor owns a less interest in the land covered by this lease than the entire and undivided fee simple mineral estate therein, then whether or not such less interest is referred to or described herein, all royalties herein provided shall be paid Lessor only in the proportion (calculated on a royalty-acre basis) which the royalty interest owned by him in said land bears to the full and entire royalty interest in said land.

If the estate of either party hereto is assigned or sublet, and the privilege of assigning or subletting in whole or in part is expressly allowed, the express and implied covenants hereof shall extend to the sublessees, successors and assigns of the parties; and in the event of an assignment or subletting by Lessee, Lessee shall be relieved and discharged as to the leasehold rights so assigned or sublet from any liability to Lessor thereafter accruing upon any of the covenants or conditions of this lease, either express or implied. No change in the ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee or require separate measuring or installation of separate tanks by Lessee. Notwithstanding any actual or constructive knowledge of or notice to Lessee, no change in the ownership of said land or of the right to receive royalties hereunder, or of any interest therein, whether by reason of death, conveyance or any other matter, shall be binding on Lessee (except at Lessee's option in any particular case) until 90 days after Lessee has been furnished written notice thereof, and the supporting information hereinafter referred to, by the party claiming as a result of such change in ownership or interest. Such notice shall be supported by original or certified copies of all documents and other instruments or proceedings necessary in Lessee's opinion to establish the ownership of the claiming party.

Lessee may, at any time, execute and deliver to Lessor or piece of record a release covering all or any part of the acreage embraced in the leased premises or covering any one or more zones, formations or depths underlying all or any part of such acreage, and thereupon shall be relieved of all obligations thereafter to accrue with respect to the acreage, zones, formations or depths covered by such release.

Lessee is granted the right, from time to time while this lease is in force, to pool into a separate operating unit or units all or any part of the land covered by this lease with other land, lease or leases, or interests therein (whether such other interests are pooled by a voluntary agreement on the part of the owners thereof or by the exercise of a right to pool by the Lessees thereof), when in Lessee's judgment it is necessary or advisable in order to promote conservation, to properly develop or operate the land and interests to be pooled, or to obtain a multiple production allowable from any governmental agency having control over such matters. Any unit formed by such pooling shall be of abutting or adjoining tracts and shall not exceed 640 acres (plus a tolerance of 10%) for gas or gas-condensate and shall not exceed 80 acres (plus a tolerance of 10%) for any other substance covered by this lease; provided that if any governmental regulation or order shall prescribe a spacing pattern for the development of a field wherein the above described land, or a portion thereof, is located, or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be permitted in such allocation of allowable. Each unit shall be created by Lessee's recording a declaration of Pooling containing a description of the unit so created. Such pooling shall be effective on the date such declaration is filed unless a later effective date is specified in such declaration. In lieu of the royalties elsewhere herein specified, except shut-in gas well royalties, Lessor shall receive on production from an area so pooled only such portion of the royalties which, in the absence of such pooling, would be payable hereunder to Lessor on production from the land covered by this lease which is placed in the pooled area as the amount of the surface acreage in the land covered by this lease which is placed in the pooled area bears to the amount of the surface acreage of the entire pooled area. Nothing herein contained shall authorize or effect any transfer of any title to any leasehold, royalty or other interest pooled pursuant hereto. The commencement of a well, the conduct of other drilling operations, the completion of a well or of a dry hole, or the operation of a producing well on the pooled area, shall be considered for all purposes (except for royalty purposes) the same as if said well were located upon, or such drilling operations were conducted upon, the lands covered by this lease whether or not such well is located upon, or such drilling operations are conducted upon, said lands. Lessee may terminate any pooling effected pursuant hereto at any time the pooled unit is not producing or no drilling operations are being conducted thereon by executing and filing of record in the county or counties in which the pooled area is located a written declaration of the termination of such pooling, provided that the pooling of all interests not covered by this lease which comprise a part of such pooled unit be also terminated in some effective manner.

Lessee shall have the right to use, free of cost, gas, oil and water found on said land for its operation, except water from the wells of the Lessor. When required by the Lessor, the Lessee shall bury its pipelines below plow depth and shall pay reasonable damages for injury by reason of its operation to growing crops on said land. No well shall be drilled nearer than 200 feet to any house or barn or other structure on said premises as of the date of this Lease without the written consent of the Lessor. Lessee shall have the right at any time during, or after the expiration of this Lease to enter upon the property and to remove all machinery, fixtures, and other structures placed on said premises, including the right to draw and remove all casing, but the Lessee shall be under no obligation to do so.

Lessor hereby warrants and agrees to defend the title to the lands herein described, but if the interest of Lessor covered by this lease is expressly stated to be less than the entire fee or mineral estate, Lessor's warranty shall be limited to the interest so stated. Lessee may purchase or lease the rights of any party claiming any interest in said land and exercise such rights as may be obtained thereby but lessee shall not suffer any forfeiture nor incur any liability to Lessor by reason thereof. Lessee shall have the right at any time to pay for Lessor, any mortgage, taxes or other lien on said lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof, and any such payments made by Lessee for Lessor may be deducted from any amounts of money which may become due Lessor under this lease.

All express provisions and implied covenants of this lease shall be subject to all applicable laws, governmental orders, rules and regulations. This lease shall not be terminated in whole or in part, nor Lessee held liable in damages, because of a temporary cessation of production or of drilling operations due to breakdown of equipment or due to the repairing of a well or wells, or because of failure to comply with any of the express provisions or implied covenants of this lease if such failure is the result of the exercise of governmental authority, war, armed hostilities, lack of market, act of God, strike, civil disturbance, fire, explosion, flood or any other cause reasonably beyond the control of Lessee.

This lease and all provisions thereof shall be applicable to and binding upon the parties and their respective successors and assigns. Reference herein to Lessor and Lessee shall include reference to their respective successors and assigns. Should any one or more of the parties named above as Lessors not execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

Each husband/wife above named hereby joins in the execution and delivery of this lease for the purpose of conveying, releasing and relinquishing unto Lessee, for the purposes and consideration aforesaid, all of his/her right, title, interest and estate in said land, including any rights of dower/courtesy and homestead which he/she may have therein.

IN WITNESS WHEREOF, this lease is executed as of the day and year first above written.

#### ACKNOWLEDGEMENT

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

(Joint Acknowledgement )

On this \_\_\_\_\_ day of \_\_\_\_\_, 2007, before me the undersigned Notary Public in and for said County and State,

personally appeared \_\_\_\_\_  
known to me to be the persons whose names are subscribed to the foregoing instrument and acknowledged that they executed the same as their free and voluntary act and deed for the purposes and consideration therein mentioned and set forth.

IN WITNESS WHEREOF I have hereunto set my hand and official seal.

Commission Expiration Date

Notary Public

#### ACKNOWLEDGEMENT

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

(Joint Acknowledgement )

On this \_\_\_\_\_ day of \_\_\_\_\_, 2007, before me the undersigned Notary Public in and for said County and State,

personally appeared \_\_\_\_\_  
known to me to be the persons whose names are subscribed to the foregoing instrument and acknowledged that they executed the same as their free and voluntary act and deed for the purposes and consideration therein mentioned and set forth.

IN WITNESS WHEREOF I have hereunto set my hand and official seal.

Commission Expiration Date

Notary Public

CERTIFICATE OF RECORDING

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

This instrument was filed for record on the \_\_\_\_\_ of \_\_\_\_\_, 2007, at \_\_\_\_\_ o'clock \_\_\_\_\_ M  
and recorded in Book \_\_\_\_\_ at Page \_\_\_\_\_ of the records of this office.

\_\_\_\_\_  
Clerk of the Circuit Court and Ex Officio Recorder

By \_\_\_\_\_ Deputy

AFTER RECORDING RETURN TO: \_\_\_\_\_

This Instrument Prepared By \_\_\_\_\_ of \_\_\_\_\_

## EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement Dated March 17, 2007, by and between Storm Cat Energy (USA) Operating Corporation, as Operator, and Non-Operators, pertaining to Section 12, Township 11 North, Range 17 West, Van Buren County, Arkansas.

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

"Operator" shall mean the party designated to conduct the Joint Operations. "Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

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

### 2. Statement and Billings

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

### 3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Chase Manhattan Bank or its successors on the first day of the month in which delinquency occurs plus 4% 2% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint

Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.  
Operator may, at its option, choose to substitute other penalties described elsewhere in this Agreement for failure to pay bills within fifteen (15) day time frame described above.

#### 4. Adjustments

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

#### 5. Audits

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

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

#### 6. Approval By Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

#### 1. Ecological and Environmental

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

#### 2. Rentals and Royalties

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

#### 3. Labor

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

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

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

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

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

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

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

#### 4. Employee Benefits

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

#### 5. Material

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

#### 6. Transportation

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

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

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

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

#### 7. Services

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

#### 8. Equipment and Facilities Furnished By Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities, excluding field offices whose costs are to be included within the overhead rates set forth in Section III herein, at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12.00 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

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

#### 9. Damages and Losses to Joint Property

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



Legal Expense

10.

Expense of handling, investigating and settling litigation or claims, title and regulatory work, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3: such services directly benefit the Joint Account and would otherwise be provided by outside legal counsel and such charges for Operator's legal staff do not exceed the rates paid for outside attorneys.

Taxes

11.

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

Insurance

12.

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

Abandonment and Reclamation

13.

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

Communications

14.

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

Other Expenditures

15.

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

### III. OVERHEAD

Overhead - Drilling and Producing Operations

1.

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

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

( ) Percentage Basis, Paragraph 1B

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

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

( ) shall be covered by the overhead rates, or

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 7,500  
(Prorated for less than a full month.)

Producing Well Rate \$ 750

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

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

For the purpose of determining charges on a percentage basis under Paragraph 12 of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 100,000 .

A. 5.0 % of first \$100,000 or total cost if less, plus

B. 3.0 % of costs in excess of \$100,000 but less than \$1,000,000, plus

C. 2.0 % of costs in excess of \$1,000,000.

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

3. Catastrophe Overhead

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

A. 5.0 % of total costs through \$100,000; plus

B. 3.0 % of total costs in excess of \$100,000 but less than \$1,000,000; plus

C. 2.0 % of total costs in excess of \$1,000,000.

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

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

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

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

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

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

- (b) Line Pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus the percent most recently recommended by COPAS, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

- (c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

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

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

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

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

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

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

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

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

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

4. Expense of Conducting Inventories

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

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

VI. MODEL FORM INTERPRETATION

Published COPAS Model Interpretations are specifically incorporated herein.

## EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement Dated March 17, 2007, by and between Storm Cat Energy (USA) Operating Corporation, as Operator, and Non-Operators, pertaining to Section 12, Township 11 North, Range 17 West, Van Buren County, Arkansas.

### INSURANCE PROVISIONS

1. Operator shall at all time, while conducting operations hereunder, maintain in force the following insurance at the expense of and for the benefit of the joint account:
  - (a) Statutory Worker's Compensation insurance in accordance with the laws of the state in which the operations are to be conducted, and Employer's Liability insurance with limits not less than \$1,000,000 for any one person, and not less than \$1,000,000 for any one accident.
  - (b) Commercial General Liability insurance with limits of not less than \$1,000,000 combined single limit for bodily injury or property damage per occurrence, and \$2,000,000 aggregate.
  - (c) Business Automobile Liability insurance covering owned, non-owned and hired automotive equipment used under this agreement, with limits of not less than \$1,000,000 combined single limit for bodily injury or property damage per accident. If automotive equipment used is owned or leased exclusively by Operator, no charge will be made to the joint account for premiums for this coverage.
  - (d) Excess Liability insurance with limits of not less than \$5,000,000 combined single limit for bodily injury or property damage per occurrence to apply in excess of Employer's Liability, Commercial General Liability and Business Automobile Liability. If a Non-Operator elects not to be covered under Operator's Excess Liability coverage, such Non-Operator shall provide Operator with a certificate of insurance evidencing at least \$5,000,000 in Excess Liability insurance for its own account. Such certificate of insurance must be provided to Operator prior to spudding the well.
  - (e) Operator's Extra Expense Indemnity ("OEE") insurance during drilling and completion operations (including coverage for Control of Well, Redrilling and Restoration due to blowout and/or cratering above or below the surface, evacuation expense, and accidental Seepage and Pollution Liability coverage including Clean-Up and Containment, all as defined in Operator's policy), with limits of not less than \$5,000,000 (with a deductible of not more than \$1,000,000 with respect to Non-Operator's interest) and Care, Custody and Control coverage in the minimum amount of \$1,000,000. In the event that a participating party elects to be covered by its own OEE policy, then such party shall provide Operator with a certificate of insurance evidencing that such party carries OEE insurance for its own account with minimum limits corresponding to those provided for in Operator's OEE policy. Such certificate of insurance must be provided to Operator prior to spudding the well. In the event that Operator is self-insured for OEE or does not carry OEE insurance, then it shall be the sole responsibility of each party hereto to provide its own OEE insurance, unless prior alternative arrangements have been made, in writing, by the parties hereto.
  - (f) The insurance described above shall be carried at the joint expense of the parties hereto (except with respect to those parties that timely elect to not be covered by the insurance described in paragraphs (d) and/or (e) above) and all premiums and other costs and expenses related thereto shall be charged to the joint account in accordance with the Accounting Procedure attached as Exhibit "C" to this Agreement.
2. Any party hereto may acquire such additional insurance as it deems proper to protect itself against any claims, losses, damages or destruction arising out of operations hereunder. Any other such insurance shall be carried by such party at its own expense and such insurance shall include a waiver of subrogation in favor of all other parties.
3. Losses not covered by the insurance required by this Agreement to be carried for the benefit and at the expense of the parties hereto, losses exceeding the limits of insurance coverage and applicable deductible expenses shall all be charged to the joint account.
4. It is further understood and agreed that Operator is not a warrantor of the financial responsibility of the insurer with whom such insurance is carried, and that except for willful negligence, Operator shall not be liable to Non-Operator for any loss suffered on account of the insufficiency of the insurance carried, or of insurer with whom carried. Operator shall not be liable to Non-Operator for any loss accruing by reason of Operator's inability to procure or maintain the insurance above mentioned. Operator agrees that if at any time during the life of this agreement it is unable to obtain or maintain such insurance, it shall immediately notify in writing Non-Operators of such fact.
5. Operator shall use reasonable efforts to require all contractors and their sub-contractors working or performing services hereunder to procure and maintain:
  - (a) Statutory Worker's Compensation insurance in accordance with the laws of the state in which the operations are to be conducted, and Employer's Liability insurance with limits not less than

\$1,000,000 for any one person, and not less than \$1,000,000 for any one accident. Such coverage to be endorsed to provide for Alternate Employer and Waiver of Subrogation in favor of Operator and the parties hereto;

- (b) Commercial General Liability insurance with policy limits of at least \$1,000,000 combined single limit for bodily injury or property damage per occurrence, and \$2,000,000 aggregate and shall include coverage for contractual liability for liabilities assumed under contract as between the Contractor and Operator. Such coverage to be endorsed to provide additional insured status and waiver of subrogation in favor of the Operator and the parties hereto;
  - (c) Business Automobile Liability insurance covering owned, non-owned and hired automotive equipment used under any contract as between the Contractor and Operator, with limits of not less than \$1,000,000 combined single limit for bodily injury or property damage per accident. Such coverage to be endorsed to provide Additional Insured and Waiver of Subrogation status to the Operator and the parties hereto;
  - (d) Excess Liability insurance with limits of not less than \$1,000,000 combined single limit for bodily injury or property damage per occurrence to apply in excess of Employer's Liability, Commercial General Liability and Business Automobile Liability insurance.
  - (e) Notwithstanding the above, no liability shall attach to Operator in the exercise of its good-faith judgment as to the types and amounts of insurance, if any, to be required of Contractors and sub-contractors.
6. Each party hereto to be insured hereunder, shall provide a certificate of insurance evidencing the above insurance coverage(s) upon the request of any other party. In the event any party hereto elects to self-insure, then in such event, it must obtain a Certificate of Financial Responsibility from the applicable federal and/or state agencies, provide an acceptable letter of self-insurance or otherwise furnish appropriate acceptable evidence of same relating to said guidelines to the other parties hereto.

End of Exhibit "D"



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

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

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

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and tender to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. <sup>See Insert in Article 14</sup> In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

### 4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following at least Sixty ( 60 ) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying Fifty percent ( 50 %) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than Fifty percent ( 50 %) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

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

(          ) months immediately preceding the Winter Period.

4.2 ☒ (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than Zero percent ( 0 %) of its Full Share of Current Production for Makeup Gas during the Winter Period.

4.3 ☒ (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area <sup>1</sup>, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to One Hundred percent ( 100 %) of such Overproduced Party's Full Share of Current Production.

### 5. STATEMENT OF GAS BALANCES

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

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

### 6. PAYMENTS ON PRODUCTION

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

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

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

6.2.1 ☐ (Optional - For use only with Section 6.2 - Alternative 1 - Entitlement) Upon written request of a Party taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of the Current Underproducer's Full Share of Current Production taken by the Current Overproducer, provided, however, that such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of Section 7.5. Notwithstanding anything contained herein to the contrary, it is understood and agreed that this provision shall only be utilized when there are separate royalty interests encumbering the parties hereto.

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

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

### 7. CASH SETTLEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

7.7 Interest compounded at the rate of Ten percent (10 %) per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.

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

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

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

### 8. TESTING

Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only after sixty (60) days' prior written notice to the Operator and shall last no longer than seventy-two (72) hours.

### 9. OPERATING COSTS

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

### 10. LIQUIDS

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

### 11. AUDIT RIGHTS

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

### 12. MISCELLANEOUS

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

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

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

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12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

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

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

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

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

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

### 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

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

13.2 ☒ (Optional - Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement (including but not limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at least thirty ( 30 ) days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within Fifteen ( 15 ) days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the ~~earliest to occur of~~ sixty (60) days after receipt of the ~~Underproduced Party's demand of~~ (ii) at the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of Section 13.1 hereof.

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

### 14. OTHER PROVISIONS

14.1 Section 3.6 shall be modified by inserting the following language at the \*: "In addition, if a Party requests that Operator market such Party's Full Share of Current Production (and Operator agrees in writing to do so), Operator may sell such Party's Full Share of Current Production for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable affiliate or third party marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production." If a Party requests that the Operator market such Party's Full Share of Current Production and Operator does not agree in writing to do so, such Party shall be entitled to exercise the special gas balancing rights described in paragraph 12 of "Exhibit H" in the same manner as if Operator had originally agreed to market such Party's Full Share of Current Production and then elected to terminate such marketing arrangement pursuant to paragraph 11 (ii) of "Exhibit H."

INSTRUCTIONS FOR USE OF GAS BALANCING AGREEMENT FORM

GENERAL

This Gas balancing Agreement form is intended to be used as Exhibit "E" to the 1977, 1982 and 1989 A.A.P.L. Form 610 Model Form Operating Agreements. It is also generally suitable for use with other forms of operating agreements. However, before using this form, both it and the operating agreement in question should be reviewed and revised as required to ensure consistency.

If this form is used as an exhibit to an A.A.P.L. Form 610 Model Form Operating Agreement or other operating agreement, the provisions in section 1.5 (Counterparts), the "IN WITNESS WHEREOF" paragraph on page 6 and the signature lines and acknowledgements on page 7 should be omitted.

This Gas Balancing Agreement may also be executed as a separate agreement for properties covered by an existing operating agreement where there is no gas balancing agreement or where the one employed is deemed inadequate. In that event, the properties subject to the form will have to be described, and the provisions of section 1.5 (Counterparts), the "IN WITNESS WHEREOF" on page 6 and the signature lines and acknowledgements will have to be employed.

The description of the area covered by the Agreement may be included in the definition of the Balancing Area in Section 1.02. Care should be taken in drafting this description however, because it may be desirable to cover more than one Balancing Area. Such a definition might, for example, read as follows;

Each well subject to that Operating Agreement dated \_\_\_\_\_, covering \_\_\_\_\_ that produces gas or is allocated a share of gas production, if a single well is completed in two or more reservoirs, such well shall be considered a separate well with respect to, but only with respect to, each reservoir from which the gas production is not commingled in the wellbore.

This Gas Balancing Agreement contains both "alternative" and "optional" provisions. In the case of alternative provisions, it will generally be necessary to select one alternative in order to make the Gas Balancing Agreement effective. Provisions which are designated as optional (or as Option 1, 2, etc.) may or may not be used. Note that, in order for an Alternative or Option to be selected and effective, it must be checked. If, however, an Alternative is not selected, "Alternative 1" in each instance will be deemed to have been adopted by the Parties, but if an Option is not selected, it will not form a part of the Gas Balancing Agreement. See Section 12.6.

HEADING - Indicate the applicable Operating Agreement and other information. If the Gas Balancing Agreement is to be used without an Operating Agreement, the heading on page 1 should be modified appropriately: and the following references to the "Operating Agreement" should be deleted or modified appropriately: SECTION 1.12; SECTION 7.1; SECTION 9; SECTION 12.4; SECTION 13.1; and SECTION 13.2.

SECTION 1.02 - Select the Balancing Area to be used, or insert a description of the Balancing area. As a general rule, the use of a mineral lease as a Balancing Area will only be appropriate in certain situations involving offshore wells.

SECTION 1.16 - This definition should be used only if one of the optional seasonal limitation provisions in SECTION 4.2 is employed. The specific months during which makeup is to be restricted should be included, e.g., "the months of November, December, and the following January and February."

SECTION 2.1 - The parties should decide whether the basis of balancing the Balancing Area will be in Mcfs or MMBtus. One of the two Alternatives stipulated MUST be selected to avoid an automatic election that Alternative 1 applies.

SECTION 2.2 - Since most gas is now decontrolled, the primary purpose of this provision is to provide for separate application of the form to different price categories in the event that price controls are imposed in the future by government entity.

SECTION 3.5 - The provision is intended to limit Overproduction in order to keep a Party from getting too far out of balance. It should be noted that this SECTION will only have impact if a Party owns less than a 1/3 working interest in the Balancing Area, since under it a party owning a 1/3 interest will be entitled to rake  $300\% \times 1/3 = 100\%$ .

SECTION 4.1 - Select the number of days' notification that an Underproduced Party must give prior to making up Gas. Also indicate the percentage of each Overproduced Parties' Gas that Underproduced Parties will be allowed to make up. The percentages should be identical.

SECTION 4.2 - The form sets out two Options for imposing seasonal limitations on making up Gas. It should be noted that it is NOT required that any seasonal limitation be included. If Option 1 is selected, select the number of months prior to the Winter Period that will be used to determine how much Gas an Underproduced Party may make up during the Winter Period. This number and the number of months in the Winter Period (as defined in SECTION 1.16) should add up to 12 or less. If Option 2 is selected, indicate the percentages of an Overproduced Party's Gas that an Underproduced Party may make up during the Winter Period. This percentage should be lower than the percentage set out in SECTION 4.1.

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SECTION 4.3 - Select the percentage of Overproduced Party's Gas which it should be required to make available for make up once it has produced all of its share of ultimately recoverable reserves. This percentage should be greater than the percentage set out in SECTION 4.1.

SECTION 6.2 - One of the two Alternatives stipulated MUST be selected as the basis upon which Royalty is to be calculated and paid in order to avoid an automatic election that Alternative 1 applies.

SECTION 7.3 - One of the two Alternatives stipulated for payment of amounts due under a cash settlement MUST be selected in order to avoid an automatic election that Alternative 1 applies. Note that SECTION 7.3.1 is optional, and may ONLY be used with SECTION 7.3, Alternative 2.

SECTION 7.4 - One of the two alternatives stipulated for determining proceeds received by an Overproduced Party for cash settlement purposes MUST be selected in order to avoid an automatic election that Alternative 1 applies.

SECTION 7.5.1 through 7.5.2 - Before selecting any of these provisions the Parties should review the relevant gas processing arrangements for the Gas. SECTION 7.5.2, Option 1, contemplates that all wellhead MMBtus of Overproduction will be valued at the gas price per MMBtu received by the Overproduced Party, without regard to whether any of the gas may have been processed, SECTION 7.5.2, Option 2, on the other hand, would include any enhanced or impaired values resulting from processing in calculating a valuation for the Overproduction. Note that if SECTION 7.5.2, Option 1, is selected and residue gas is to be sold on MMBtu basis, it will be necessary to measure the number of MMBtus produced at the well (even if the parties have elected to balance on Mcfs), in order to determine the total value of Overproduction.

SECTION 7.7 - Select the interest rate payable for unpaid amounts owed pursuant to a cash settlement.

SECTION 7.9 - In the event that the parties anticipate that overproduction may be subject to potential refund by an appropriate governmental authority, the Parties may chose this provision.

SECTION 7.10 - If the Parties adopt this provision, an Overproduced Party may make a cash settlement with Underproduced Parties for all or apart of outstanding gas imbalances as often as once every twenty-four (24) months.

SECTION 8 - Select the number of days' prior notification required for well tests, as well as the length of such rests.

SECTION 12.9 - Select the appropriate method for computing and reporting income to the Internal Revenue Service based on the "entitlements" or "sales" methods.

SECTION 13 - The purpose of this Section is to stipulate the rights of Parties in the event that any Party sells, exchanges, transfers or assigns its interest in the Balancing Area. SECTION 13.2 gives the Underproduced Party an option to demand a cash settlement if an Overproduced Party sells its interest, and number of days notice and response should be selected to implement this procedure.

SECTION 14 - This provision is intended to provide the Parties an opportunity to modify or supplement any of the Gas Balancing Agreement's provisions.

SECTION 15 - This provision is to be utilized ONLY if the Gas Balancing Agreement is NOT agreed to contemporaneously with the execution of an A.A.P.L. Form 610 Model Form Operating Agreement or another suitable Operating agreement. If the Gas Balancing Agreement is agreed to contemporaneously with any such operating Agreement, SECTION 15 should be omitted. Otherwise, the Parties must determine the appropriate Percentage Interest which must execute the form to make it effective and the date by which such interests must execute it.

SIGNATURE ELEMENT - The "IN WITNESS WHEREOF," signature and attest/witness elements are ONLY to be utilized if the Gas Balancing Agreement is NOT agreed to contemporaneously with the execution of an A.A.P.L. Form 610 Model Form Operating Agreement or another suitable operating agreement. If the Gas Balancing Agreement is agreed to contemporaneously with any such operating agreement, the "IN WITNESS WHEREOF," signature and attest/witness elements should be omitted. Otherwise, these items should be completed in an appropriate fashion, and any appropriate amendment made to the heading of the Gas Balancing Agreement.



## EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MARCH 17, 1997, BY AND BETWEEN STORM CAT ENERGY (USA) OPERATING CORPORATION, AS OPERATOR, AND THE OTHER PARTIES THERE TO, AS NON-OPERATORS.

The term "Contractor", as used herein shall mean the party designated as Contractor, Operator or Seller in the foregoing agreement, of which this Exhibit is a part. The term "Contract," as used herein shall mean the foregoing agreement to which this Exhibit is a part.

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

### I. EQUAL EMPLOYMENT OPPORTUNITY PROVISION

- A. The contract clause prescribed in Section 202 of Executive Order No. 11246 of September 24, 1965, is incorporated by referenced into this Exhibit.
- B. Contractor further agrees and certifies that, if the value of this contract is \$50,000 or more and Contractor has 50 or more employees, and is not otherwise exempt, Contractor will:
  - (1) Develop a written affirmative action compliance program for each of his establishments in accordance with the requirements of 41 CFR 60-1.40 and 60-2. This program shall be developed within 120 days of the commencement of a covered contract, and shall be maintained as long as required by law or regulation.
  - (2) File annually, complete and accurate reports on Standard Form 100, Equal Employment Opportunity information Report EEO-1, in accordance with the requirements of 41 CFR 60-1.7, and otherwise comply with and file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulation adopted thereunder.

### 2. CERTIFICATION OF NONSEGREGATED FACILITIES.

Contractor certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location under its control where segregated facilities are maintained. Contractor certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in the contract as has been created by the Contractor and Cabot Corporation during the term of this Exhibit. As used in the Exhibit, the term "segregated facilities" means any waiting room, work areas, restrooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion or national origin, because of habit, local custom or otherwise. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for the specific time period) it will obtain identical certification from proposed subcontractors prior to the award of subcontractors exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for the specific time period).

#### "NOTICE TO PROSPECTIVE VENDORS AND SUBCONTRACTORS REQUIREMENT FOR CERTIFICATION OF NONSEGREGATED FACILITIES

A Certification of Nonsegregated Facilities, as required by 41 CFR 60-1.8, must be submitted prior to the award of any contract or subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause (41 CFR 60-1.4). The Certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually or annually). (NOTE: The penalty for making false statements is prescribed in 18 (I.S.C. 1001)."

### 3. EMPLOYMENT OF HANDICAPPED INDIVIDUALS AND VETERANS:

To assure compliance with Section 503 of the Rehabilitation Act of 1973 as amended, any Contractor with a contract over \$2,500 in value, must establish an affirmative action program as required by 41 CFR 60-471 to employ and advance in employment qualified handicapped individuals. To comply with the Vietnam Era Veterans Readjustment Act of 1974, each Contractor with a contract over \$10,000 must take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Vietnam Era, and list with appropriate local employment service offices all suitable employment openings, as required by 41 CFR 60-250. The contract clauses prescribed in 41 CFR 60-471 and 60-250 are incorporated by reference into this Exhibit.

#### UTILIZATION OF SMALL BUSINESS CONCERNS UTILIZATION OF LABOR SURPLUS AREA CONCERNS UTILIZATION OF MINORITY BUSINESS ENTERPRISES

If this contract may exceed \$5,000, Contractor is subject to the clauses concerning Utilization of Small Business Concerns (41 CFR 1-1.710), Utilization of Labor Surplus Area Concerns (41 CFR 1-1.805) and Utilization of Minority Business (41 CFR 1-1.1310). If Contractor is subject to the above clauses, has a contract which may exceed \$500,000 and offers substantial subcontracting possibilities, Contractor is also subject to the Small Business Concern Subcontracting Program clause, the Labor Surplus Area Subcontracting Program clause, and the Minority Business Enterprise Subcontracting Program clause, as contained in the above mentioned regulations. The clauses cited herein are incorporated by reference in this Exhibit, if and to the extent the contract is subject to such clauses by law, executive order, or regulations.





## EXHIBIT "G"

### MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

WHEREAS, Storm Cat Energy (USA) Operating Corporation, as Operator, having a notice address of 1125 17<sup>th</sup> Street, Suite 2310, Denver CO 80202 and Non-Operators have entered into that certain Operating Agreement dated effective on March 17, 2007, covering oil and gas operations being conducted on those certain lands described in Exhibit "A" (the "Contract Area"), attached hereto and made a part hereof, as said Exhibit may be amended from time to time; and

WHEREAS, Operator and Non-Operators desire to give third parties record notice of the existence of said Operating Agreement and of the rights and obligations of Operator and Non-Operators thereunder.

NOW, THEREFORE, for and in consideration of One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Operator and Non-Operators hereby stipulate and agree as follows

#### I.

The Operating Agreement is on an A.A.P.L. form 610-1982 Model Form Operating Agreement, as amended by the parties, plus attachments.

#### II.

Article VI.C. grants each party to the Operating Agreement the right to take in kind its proportionate share of all oil and gas produced from the Contract Area. Additionally, the parties have agreed to be bound by a volumetric Gas Balancing Agreement which is attached as Exhibit "E" to the Operating Agreement.

#### III.

Pursuant to Article VII.B., each Non-Operator mortgages to Operator, and grants to Operator a lien upon, its oil and gas leasehold estates and "oil and gas interests", as that term is defined in Article I.C. thereof, in the Contract Area, and grants to Operator a security interest in its share of oil or gas when extracted from the Contract Area and its interest in all equipment located thereon to secure payment of its share of expense under the Operating Agreement (including costs of investigation, defenses and payment of any final judgment or settlement for damages arising out of operations thereunder), together with interest thereon in accordance with the Operating Agreement, in addition to any other remedies available to Operator in law or pursuant to the Operating Agreement. Upon default by a Non-Operator in the payment of its share of expense, without prejudice to any other rights and remedies, Operator shall have the right to collect from the purchaser of production from the Contract Area the proceeds from the sale of such Non-Operator's share of oil or gas produced and sold from the Contract Area until the amount owed by Non-Operator, including interest, has been paid. Each purchaser of oil and gas produced from the Contract Area shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like mortgage, lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If Operator pays a defaulting party's share of any costs or expenses pursuant to Article VII. B.4 of the Operating Agreement, all other parties to the Operating Agreement, including Non-Operators shall, upon being billed by Operator, contribute their proportionate share of all sums advanced by Operator for and on behalf of the defaulting party. Such contributing parties shall, in addition to any other right they may have hereunder receive a share of any interest in the Contract Area forfeited by the defaulting party as well as any percentage penalty recoupment from such defaulting party. The share for each such contributing party shall be in proportion to its contribution.

#### IV.

This Memorandum shall constitute a Financing Statement covering oil and gas extracted from the Contract Area to the extent that such oil and gas is owned by a defaulting party under the Operating Agreement. This Mortgage and Financing Statement shall be filed for record in the real estate records of any county or parish in which the contract Area is situated and/or the Secretary of State and shall be filed by Operator upon its own motion or upon the request of any Non-Operator. Each of the undersigned Non-Operators shall be considered as both a debtor, to the extent that such party has failed to pay his or its share of expense, and as a secured party mortgagee.

V.

Operator may, on behalf of all parties, terminate the effect of this Memorandum as to all or any portion of the Contract Area by recording a full or partial release hereof.

VI.

Any party requiring additional information concerning the rights and obligations of the parties under the Operating Agreement may contact the Operator at the following address:

OPERATOR: Storm Cat Energy (USA) Operating Coporation  
1125 17<sup>th</sup> Street Suite 2310  
Denver, Colorado 80202

VII.

This Memorandum 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

STORM CAT ENERGY (USA) OPERATING CORPORATION

By:   
Name: Keith J. Knapstad  
Title: Executive Vice-President & COO

#### Non-Operator(s)

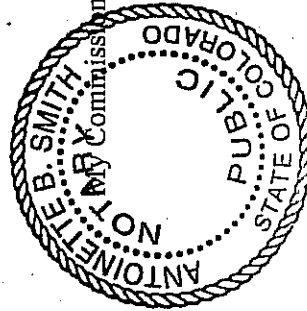
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

#### ACKNOWLEDGEMENTS

STATE OF COLORADO §  
§  
COUNTY OF Denver §

On this the 21st day of February, 2007, before me, the undersigned Notary Public in and for said County and State, personally appeared Keith J. Knapstad, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged that he is the Executive Vice-President & COO of Storm Cat Energy (USA) Operating Corporation, a(n) Colorado corporation, and that he executed the same as his free and voluntary act and deed in his said capacity for the purposes and consideration therein mentioned and set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.



Antoinette B. Smith  
Notary Public in and for the State of Colorado

V.

Operator may, on behalf of all parties, terminate the effect of this Memorandum as to all or any portion of the Contract Area by recording a full or partial release hereof.

VI.

Any party requiring additional information concerning the rights and obligations of the parties under the Operating Agreement may contact the Operator at the following address:

OPERATOR: Storm Cat Energy (USA) Operating Corporation  
1125 17<sup>th</sup> Street Suite 2310  
Denver, Colorado 80202

VII.

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**Operator**

STORM CAT ENERGY (USA) OPERATING CORPORATION

By: [Signature]  
Name: Keith J. Knapstad  
Title: Executive Vice-President & COO

**Non-Operator(s)**

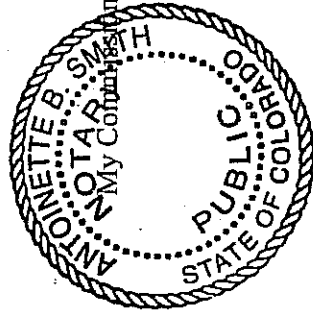
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ACKNOWLEDGEMENTS**

STATE OF COLORADO §  
COUNTY OF Denver §

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IN WITNESS WHEREOF, I have hereunto set my hand and official seal.



Antoinette B. Smith  
Notary Public in and for the State of Colorado

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

On this the \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_, before me, the undersigned Notary Public in and for said County and State, personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged that he is the \_\_\_\_\_ of \_\_\_\_\_, a(n) \_\_\_\_\_ corporation, and that he executed the same as his free and voluntary act and deed in his said capacity for the purposes and consideration therein mentioned and set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for the State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

On this the \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_, before me, the undersigned Notary Public in and for said County and State, personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged that he is the \_\_\_\_\_ of \_\_\_\_\_, a(n) \_\_\_\_\_ corporation, and that he executed the same as his free and voluntary act and deed in his said capacity for the purposes and consideration therein mentioned and set forth.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for the State of \_\_\_\_\_

## EXHIBIT "H"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MARCH 17, 1997, BY AND BETWEEN STORM CAT ENERGY (USA) OPERATING CORPORATION, AS OPERATOR, AND THE OTHER PARTIES THERETO, AS NON-OPERATORS.

### GAS MARKETING PROVISIONS

In the event a Party elects to have the Operator market such Party's Full Share of Current Production (hereinafter "your gas" or "your share of gas production") pursuant to the written election procedure described in Section 3.6 of the Gas Balancing Agreement, the marketing of your gas shall be subject to the following terms and conditions:

1. Defined Terms. All capitalized terms used in this Exhibit "H" that are not otherwise defined herein shall have the meaning given to such terms in the Gas Balancing Agreement (Exhibit "E").
2. Agreement to Market. Operator will use its commercially reasonable efforts to market your gas from each well subject to this Operating Agreement (collectively, the "Subject Wells") at the same price Operator markets its own gas from the Subject Wells. However, Operator will not make any assurances that it can market such gas under the same terms and conditions as it markets its share of gas from the Subject Wells. Each electing Party (hereinafter, "you" or "your") understands and agrees that Operator is under no obligation to arrange for the sale of any specific quantity of gas from you to any specific purchaser at any specific price. You understand and agree that Operator may in its sole discretion (i) aggregate your gas with volumes of gas produced from other wells; (ii) market and/or sell your gas to a related marketing affiliate; or (iii) market your gas under existing contractual arrangements. You agree that Operator shall have the authority to tender nominations for the marketing of your gas. You also agree that Operator shall have the authority to make any settlements for claims arising from the sale by Operator of your gas. The sale or delivery by Operator of your share of gas under the terms of any existing contract(s) of Operator shall not give you any interest in or make you a party to said contract(s). You will not acquire any third-party beneficiary or other rights in Operator's marketing or sales contracts or gathering and transportation agreements.

Operator shall not commit your gas to any gas contract for periods in excess of one (1) year.

3. Payment of Proceeds. Operator will disburse to you only those proceeds attributable to your share of gas production that are actually received by Operator from the purchaser of your gas, less your share of (i) applicable royalty payments, production or severance taxes, and (ii) applicable transportation, processing, compression, treating, dehydration, marketing or other similar charges (including pipeline penalties) which may be assessed against said production, including those charged by companies affiliated with Operator. You agree that Operator may offset any payment due you against any sum you owe Operator, including amounts owed for your share of the costs and expenses incurred in the operation of the Subject Wells.
4. Royalty Payments. Operator will pay your share of royalty proceeds due to each royalty interest owner to which your working interest is subject. In paying your share of royalty proceeds, Operator shall be acting in a ministerial capacity for your convenience only, and you retain sole liability for such payments. It is your responsibility to timely provide Operator with appropriate title information, including decimal interests, names, addresses and social security tax identification numbers, and any changes therein. You must inform Operator of any special instructions regarding payment of royalties.
5. Reduction in Takes or Failure by Purchaser to Pay. If the purchaser of your gas reduces or curtails its takes, you shall share proportionately in such reduction or curtailment. Operator will use reasonable efforts to restore the market for the gas or seek alternative markets, but Operator will not be liable for any loss or damages to you resulting from the interruption in the market or failure to secure an alternative market. If the purchaser fails or refuses to pay for

gas taken, Operator will use all reasonable means to obtain payment, but Operator will not be liable to you for any gas taken by a purchaser unless and until Operator is paid for the gas. You will be liable to Operator for your proportionate share of costs, expenses and fees incurred by Operator in attempting to collect such payment.

6. Warranties. You represent and warrant (i) good title to your share of gas production and (ii) that your share of gas production from the Subject Wells is not subject to any existing agreement or arrangement and that Operator shall have the sole right to market and/or sell your share of gas production from the Subject Wells.

7. Limitation of Operator's Liability. You agree to protect, defend, indemnify and hold harmless Operator, its affiliates and their respective representatives, from any claims, liabilities or damages, including attorney's fees and court costs, that arise out of or relate to Operator's marketing of your gas including (i) any false representation or warranty made by you; (ii) your failure to pay any assessment, tax or other liability; (iii) the sufficiency of the proceeds received for your share of gas production; (iv) claims by royalty, overriding royalty interest owners, taxing entities, or any other third parties regarding Operator's marketing of your gas; and (v) any other claims arising out of or relating to Operator's marketing of your gas, including claims relating to the terms of any agreements made by the Operator with respect to the marketing of the gas. This indemnity and all other indemnities herein shall survive the termination of the Operating Agreement.

8. Balancing. For gas balancing, you shall be deemed to have produced and sold gas to the extent of proceeds received for volumes attributable thereto. Operator reserves the right to adjust your share of gas production from the Subject Wells to effectuate gas balancing in accordance with the terms of the Gas Balancing Agreement.

9. Conflicting Provisions. The terms set forth in this Exhibit "H" shall be in lieu of any marketing by Operator under any Arkansas statute governing the marketing of an owner's gas by an operator. In addition, the language in this Exhibit "H" shall take precedence and supersede any conflicting language that may be contained in any voluntary pooling, joint operating agreement, gas balancing agreement, or in any division order or transfer order.

10. Notification of Ownership Changes. You shall be solely responsible for notifying Operator of any changes in the ownership of and/or rights to your share of gas production from the Subject Wells or the proceeds derived from the sale thereof. Operator shall not be bound by any changes in ownership or rights, unless and until so notified as provided herein.

11. Term. The provisions of this Exhibit "H" shall apply to gas sales made by Operator commencing the first day of the month following the date Operator receives a written request from you pursuant to Section 3.6 of the Gas Balancing Agreement. Either Operator or you may terminate the gas marketing arrangement described herein by providing the other Party with a minimum thirty (30) day written notice, however, (i) termination shall not be effective until such time as any obligation(s) that Operator has entered into for the gas has (have) expired and (ii) in the event Operator elects to terminate its obligations hereunder, you shall be entitled to exercise the special gas balancing rights described in paragraph 12 below. Upon the effective date of any such termination, you shall be deemed an Underproduced Party, and your share of production shall be governed by, the terms of the Gas Balancing Agreement. Notwithstanding the above, if Operator should sell, assign or otherwise dispose of its interest in the Subject Wells, this agreement shall terminate on the effective date of such assignment or disposition. **Should you terminate this arrangement and elect to take your gas in kind and market your share of gas production, Operator will not be responsible for or pay royalties, severance taxes, production payments or other encumbrances due on your production, except to the extent required by law.**

12. Annual Cash Balancing Election. (a) In the event Operator elects to terminate its obligations hereunder pursuant to paragraph 11 above and, following such termination, you are unable to obtain a market for or contract covering your share of gas production from the Subject Wells, Operator agrees that you shall have the option to exercise the hereinafter described cash balancing rights under the Gas Balancing Agreement. To exercise your rights under this paragraph 12, you must provide Operator written notice of your election (the "Option Notice")

no later than sixty (60) days following the date Operator provides you the written termination notice described in paragraph 11 above.

(b) In the event you deliver the required Option Notice to Operator in a timely manner, Operator, as an Overproduced Party under the Gas Balancing Agreement, shall cash balance its share of the Overproduction attributable to your full quantity of Underproduction at the end of each calendar year. To cash balance, Operator shall (i) furnish you with a statement showing the volume and value of such Overproduction for each such balancing period, as calculated in accordance with Sections 7.4 and 7.5 of the Gas Balancing Agreement and (ii) provide you with a check for the value of such Overproduction.

(c) If you do not timely deliver the Option Notice to Operator, your rights under this paragraph 12 shall terminate. In addition, if after you elect to cash balance under this paragraph 12, you elect to commence taking in kind and separately disposing of your share of production, your rights under this paragraph 12 shall terminate. Your rights under this paragraph 12 shall terminate with your first date of sales.

13. No Association or Fiduciary Relationship. It is not the purpose or intention of this Exhibit "H" to create (and it should not be construed as creating) a joint venture, partnership or any type of association for federal tax or any other purposes. **Nothing herein shall be deemed to create a fiduciary relationship between you and Operator, and you hereby disclaim any type of fiduciary, trust, agency or special relationship with Operator resulting from, arising out of, or in connection with the execution or performance of the provisions of this Exhibit "H".**