SMITH + MALEK
ATTORNEYS

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Admitted in Idaho

June 24, 2019

Via Email and Hand Delivery

Mick Thomas, Administrator
Oil and Gas
Idaho Department of Lands
c/o Kourtney Romine

300 N. 6th Street, Suite 103
Boise, ID 83702

**Re: Application of AM Idaho, LLC for spacing order and to integrate unleased mineral interest owners in the drilling unit consisting of the SW ¼ of Section 10, Township 8 North, Range 5 West, Boise Meridian, Payette County, Idaho; IOGCC Docket No: CC-2019-OGR-01-002.**

Dear Administrator Thomas:

Pursuant to Idaho Code §47-318, §47-320 and §47-328, AM Idaho, LLC ("Applicant"), hereby applies for (a) a spacing order, and (b) an order integrating the mineral interests, in the drilling unit consisting of the SW ¼ of Section 10, Township 8 North, Range 5 West, Boise Meridian, Payette County, in which the existing Fallon #1-10 well is located.

**A. Request for Spacing Order.**

1. Size, shape and location of unit (Idaho Code § 47-318(2)):

Applicant requests a spacing order establishing a 160 acre spacing unit consisting of the SW ¼ of Section 10, Township 8 North, Range 5 West, Boise Meridian, Payette County, in which the existing Fallon #1-10 well is located, consistent with the default drilling unit configuration for vertical gas wells set forth in Idaho Code §47-317(3)(b). The configuration is depicted on the plat attached hereto as Exhibit A. As set forth in the Declaration of David Smith attached hereto as Exhibit B, based on the information currently available to Applicant, it is anticipated that the requested unit will result in the efficient and economical development of the pool, and is not

smaller than the maximum area that can be efficiently and economically drained by one well.

2. No more than one well and location of well (Idaho Code § 47-318(4)):

Pursuant to Idaho Code § 47-318(4), Applicant requests that the order establishing the spacing unit direct that no more than one (1) well shall be drilled to and produced from the common source of supply for the unit, being the Fallon #1-10 well. Applicant requests that the order establishing the spacing unit approve the Fallon #1-10 well in its existing location. The well is more than 330' from the quarter section lines for the SW ¼ of Section 10, in conformity with Idaho Code § 47-317(3)(b); as set forth in Permit to Drill #11-075-20032, the bottom hole for the Fallon #1-10 well is 1134' from the west quarter section line, 1033' from the south quarter section line, 1596' from the north quarter section line, and 1526' from the east quarter section line.

**B. Request for Integration Order.**

1. Name and address of the applicant (Idaho Code § 47-320(4)(a)):

AM Idaho, LLC
16600 Park Row
Houston, Texas 77084

2. Description of the spacing unit to be integrated (Idaho Code § 47-321(4)(b)):

The SW ¼ of Section 10, Township 8 North, Range 5 West, Boise Meridian, Payette County. A plat of the subject drilling unit is included in Exhibit A, attached hereto.

3. Geologic statement concerning the likely presence of hydrocarbons (Idaho Code § 47-320(4)(c)):

The required geologic statement is contained in the Declaration of David M. Smith, attached hereto as Exhibit B.

4. Statement that the drill site is leased (Idaho Code § 47-320(4)(d)):

The Declaration of Wade Moore III, Senior Landman for Applicant, attached hereto as Exhibit C, contains the required statement that the drill site is leased. No drilling activities will occur on lands to be integrated.

5. Statement of proposed operations for the spacing unit, including the name and address for the proposed operator (Idaho Code §47-320(4)(e)):

Pursuant to an existing drilling permit (Permit to Drill #11-075-20032), Applicant drilled the Fallon #1-10 well in the SW ¼ of Section 10, Township 8 North, Range 5 West, Payette County. The well was drilled to explore for natural gas and hydrocarbon liquids.

The well has been tested and, as set forth in the Declaration of David Smith, is prospective for natural gas and condensate. A gathering pipeline and processing facilities have been constructed to the east of the well location. Right of way has been acquired for a gathering pipeline to service the Fallon #1-10 well and the nearby Barlow #1-14 well. The pipeline is in advanced design state and construction is anticipated to begin shortly. It is anticipated that operations at the Fallow #1-10 well will be similar to the operations found at the previously drilled and completed wells in the Little Willow area, such as the ML 1-3, ML 2-3, Kauffman 1-34, and Kauffman 1-9. There may be limited surface equipment at the well location such as a tank battery, line heater and separator, with the well connected via gathering line to the existing processing facility at Highway 30.

Operations will be conducted in compliance with IDAPA 20.07.02. Upon commencement of production, Alta Mesa will submit production reporting, meter oil and gas, and submit an oil/gas ratio report, as required by IDAPA 20.07.02.400-.406.

It is proposed that Applicant will be the operator of the unit.

6. Proposed joint operating agreement and proposed lease form (Idaho Code §47-320(4)(f)):

A form of proposed joint operating agreement is attached hereto as Exhibit D. A proposed form of lease is attached hereto as Exhibit E.

7. List of all uncommitted owners in the spacing unit to be integrated under the application, including names and addresses (Idaho Code § 47-320(4)(g)):

A spreadsheet listing the uncommitted owners to be integrated and their last known addresses, keyed by tract number to the plat attached as Exhibit A, and including the tax parcel identification for each tract, the net mineral acres owned for each owner by tract, and a resume of efforts for each tract, is attached hereto as Exhibit F. There are eight uncommitted tracts, owned

by six owners (the City of Fruitland is the owner of three tracts).

8. Declaration indicating at least fifty-five percent (55%) of the mineral interest interest acres in the spacing unit consent the by leasing; the operator has negotiated diligently and in good faith for a period of at least 120 days prior to application for an integration order; and uncommitted owners in the affected unit shall receive mineral lease terms and conditions that are no less favorable to the lessee than those set forth in Idaho Code § 47-331(2) (Idaho Code § 47-320(6)(a)-(c)):

The Declaration of Wade Moore III, Senior Landman for Applicant, attesting to the fact that more than 55% (specifically, approximately 65.1375%) of the mineral interest acres in the subject spacing unit have been leased, is attached here to as Exhibit C. The resume of efforts showing diligent and good faith efforts for a period of more than 120 days to lease the uncommitted mineral owners is attached hereto as Exhibit F.

9. A declaration stating the highest bonus paid to a leased owner in the spacing unit prior to filing the integration application (Idaho Code §47-320(4)(i)):

The landman's Declaration attached as Exhibit C sets forth that the highest bonus paid in the subject spacing unit by Applicant prior to filing the application is $100.00 per acre.

10. A resume of efforts documenting the applicant's good faith efforts on at least two (2) separate occasions within a period of time no less than sixty (60) days to inform uncommitted owners of the applicant's intention to develop the mineral resources in the proposed spacing unit and desire to reach an agreement with uncommitted owners in the proposed spacing unit. Provided however, if any owner requests no further contact from the applicant, the applicant will be relieved of further obligation to attempt contact to reach agreement with that owner. At least one (1) contact must be by certified U.S. mail sent to an owner's last known address (Idaho Code §47-320(4)(j)):

A resume of efforts for each uncommitted owner is included in the spreadsheet attached as Exhibit F. As set forth in the Declaration of Wade Moore III, owners were sent a certified mailing to their last known address including an offer to lease and a proposed form of lease. Certified mailing receipts are attached hereto as Exhibit G. A copy of a sample of the form of letter mailed to all known uncommitted mineral owners along with the proposed form of lease, as indicated above, is attached to the Application as Exhibit H. Tract description and gross acres were inserted in the letter as appropriate for each owner. Economic terms varied depending on the owner and tract size. There were no unlocatable uncommitted owners.

June 24, 2019
Mick Thomas, Administrator
Oil and Gas
Idaho Department of Lands
c/o Kourtney Romine



11. Proposed terms of integration (Idaho Code § 47-320(3)(a)-(d)):

Applicant requests that the Department set this matter for public hearing and, after hearing issue an Order that the drilling unit comprised SW ¼ of Section 10, Township 8 North, Range 5 West, Boise Meridian, Payette County, be integrated and the currently uncommitted mineral interest owners listed in Exhibit F be provided with the following alternatives:

(a) Working interest owner. An owner who elects to participate as a working interest owner shall pay the proportionate share of the actual costs of drilling and operating a well allocated to the owner's interest in the spacing unit. Working interest owners who share in the costs of drilling and operating the well are entitled to their respective shares of the production of the well. The operator of the integrated spacing unit and working interest owners shall enter into a joint operating agreement approved by the department in the integration order.

(b) Nonconsenting working interest owner. An owner who refuses to share in the risk and actual costs of drilling and operating the well, but desires to participate as a working interest owner, is a non consenting working interest owner. Nonconsenting working interest owners are entitled to their respective shares of the production of the well, not to exceed one-eighth (1/8) royalty, until the operator of the integrated spacing unit has recovered up to three hundred percent (300%) of the nonconsenting working interest owner's share of the cost of drilling and operating the well under the terms set forth in the integration order. After all the costs have been recovered by the consenting owners in the spacing unit, the nonconsenting owner is entitled to his respective shares of the production of the well, and shall be liable for his pro rata share of costs as if the nonconsenting owner had originally agreed to pay the costs of drilling and operating the well. The operator of the integrated spacing unit and nonconsenting working interest owners shall enter into a joint operating agreement approved by the department in the integration order.

(c) Leased. An owner may enter into a lease with the operator of the integrated spacing unit under the terms and conditions in the integration order. The owner shall receive one-eighth (1/8) royalty. The operator of an integrated spacing unit shall pay a leasing owner the same bonus payment per acre as the operator originally paid to other owners in the spacing unit prior to the issuance of the integration order.

(d) Deemed leased. If an owner fails to make an election within the election period set forth in the integration order, such owner's interest will be deemed leased under the terms and conditions in the integration order. The owner shall receive one-eighth (1/8) royalty. The operator of an integrated spacing unit shall pay a leasing owner the same bonus payment per

acre as the operator originally paid to other owner in the spacing unit prior to the issuance of the integration order.

Applicant's request for a 300% risk penalty is based on the following facts, which are set forth in the Declaration of Wade Moore III, attached as Exhibit C to this Application:

(a) Applicant is bearing all of the expense necessary to bring organize the spacing unit, drill the well, and bring it to production, including but not limited to title and leasing, acquisition and interpretation of seismic data, the expense of creating and integrating a spacing unit, drilling, testing and completion of the well, design and construction of processing and transportation infrastructure, and administration of revenues and royalties for the life of the well.

(b) The requested 300% risk penalty is consistent with the penalty for nonconsenting working interest status under Applicant's joint operating agreement with its operating partners; thus the requested risk penalty places those owners electing nonconsenting working interest status on equal footing with Applicant's existing operating partners.

(c) The Fallon #1-10 well is a "wildcat" well in an area with limited knowledge of and experience with the geology, entailing a higher degree of risk to Applicant than a well drilled in a fully developed area.

(d) Specifically, the well targets a conventional sand defined by interpreted seismic data. The area is not a "resource play" involving the development of a shale resource of consistent depth and thickness over a large area, making targeting more technically complex and higher risk. While initial testing of the well was promising and suggests the well will be commercially productive, full production is necessary to fully determine its economics.

(e) The unit is located in an area lacking developed infrastructure for making product from a successful well market ready and transporting processed product to market, increasing the risk of development.

(f) Because of the frontier nature of the play in which the unit is located, well service contractors are largely unavailable locally, and a drilling rig had to be sourced from out of the area, increasing mobilization and operating expense. Because of these factors the Fallon #1-10 well was significantly more expensive to drill than had it been drilled in a developed and currently producing area.

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The uncommitted mineral owners identified in this Application should be required to elect within thirty (30) days after issuance of the Administrator's Order which method will be pursued in the development of the proposed unit, with respect to their interest, and, in the event no election is made, those unleased mineral owners shall be deemed to have elected to accept a bonus of $100.00 per net mineral acre as compensation in lieu of the right to participate in the working interest in said unit, and with the royalty to be 1/8th (deemed leased option).
The required election should be delivered to:

AM Idaho, LLC
Attn: Land Department
16600 Park Row
Houston, Texas 77084

Applicant requests that the resulting Order of the Administrator be made applicable to any successor or assignee of all parties subject to the Order.

Very truly yours,

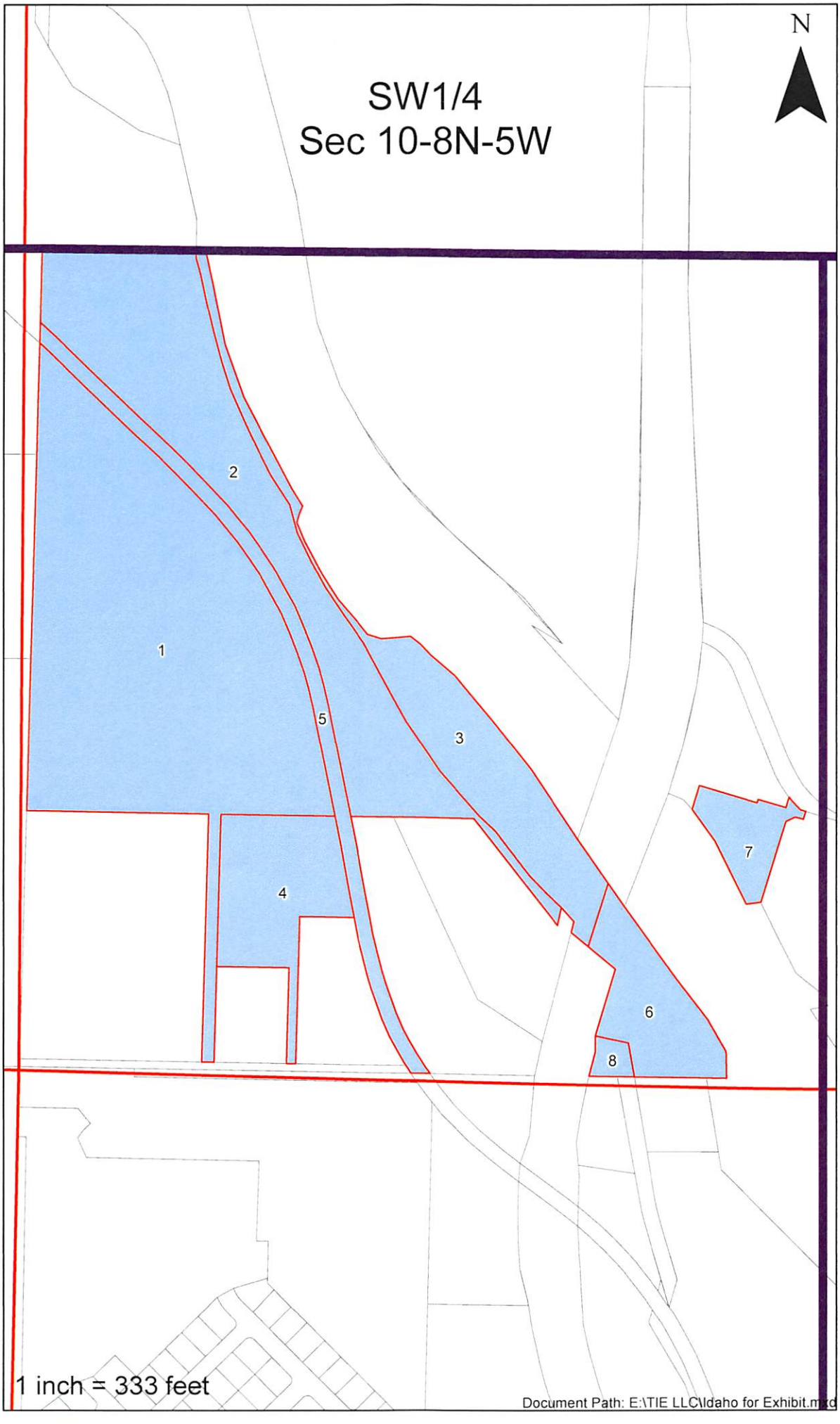
MICHAEL R. CHRISTIAN
Attorney at Law

MC:
Attachments: Exhibit A -- Plat
Exhibit B -- Smith Declaration (and exhibits)
Exhibit C -- Moore Declaration (and exhibits)
Exhibit D -- Form of JOA
Exhibit E -- Form of lease
Exhibit F -- Resume of efforts
Exhibit G -- Certified mailing receipts
Exhibit H -- Form of lease mailing letter

June 24, 2019
Mick Thomas, Administrator
Oil and Gas
Idaho Department of Lands
c/o Kourtney Romine



cc: Scott Ricks
Lee Zatarain
Wade Moore III


N
SW1/4
Sec 10-8N-5W
1
2
3
4
5
6
7
8
1 inch = 333 feet
Document Path: E:\TIE LLC\Idaho for Exhibit.mxd

**BEFORE THE OIL AND GAS CONSERVATION COMMISSION**
**STATE OF IDAHO**

| | | |
|---|---|---|
| **In the Matter of Application of AM Idaho, LLC, and Alta Mesa Services, LP, for Integration of Unleased Mineral Interest Owners in the Proposed Fallon #1-10 Unit Consisting of the SW ¼ of Section 10, Township 8 North, Range 5 West, Boise Meridian, Payette County, Idaho** | ) | Docket No. CC-2019-OGR-01-002 |
| **AM IDAHO, LLC, and ALTA MESA SERVICES, LP, Applicants.** | ) | |

**DECLARATION OF DAVID M. SMITH**

STATE OF TEXAS )
) ss
County of Harris )

David M. Smith declares:

1. I am an Exploration Geologist working for Applicant AM Idaho, LLC. I have been exploring for oil and gas in Idaho since 2010. I have over 36 years of experience in domestic and international oil and gas exploration, development, acquisitions and divestitures. Previously I was Vice President of Exploration of Alta Mesa Holdings for 19 years, worked as exploration geologist at Paramount Petroleum and Torch Energy Advisors, Inc., and served as the Exploration Manager for Bellwether Exploration Company. I earned my Bachelor of Science in Geology from Virginia Tech in 1983. Included in my responsibilities are managing geophysical exploration, interpreting data from 2-D and 3-D seismic projects, identifying and evaluating likely hydrocarbon pools based

on interpretation of seismic data, and selecting drilling targets based on such interpretation and evaluation.

2. I designed and supervised the acquisition of a proprietary 3-dimensional (3-D) seismic survey with specific parameters to explore for oil and gas reservoirs, appropriate to the challenges of this sedimentary basin. The sediments are often complexly faulted. There are also numerous basalt flows, dikes and sills present in the subsurface. These conditions complicate geologic interpretations from geophysical data.

3. I interpreted these seismic data from a project which covered several sections in Township 8 North, Range 5 West, including the SW ¼ of Section 10, ("the subject spacing unit").

4. I identified a prospect centered in the SW ¼ of Section 10, which was a wildcat test targeting presumed sands in the Idaho Group. My pre-drill interpretation was that the test well could potentially drain a 640 acre unit, comprised of the SE ¼ of Section 9, SW ¼ of Section 10, NE ¼ of Section 16 and NW ¼ of Section 15, all in T8N R5W.

5. The prospect was a presumed combination structural/stratigraphic trap defined by 3-D seismic data. The top of the prospective section was expected to be approximately 3300' TVD. The pre-drill targets were a minor objective Sand A expected at 3300' TVD and a primary objective Sand B at 3374' TVD.

6. The target reservoir sections were fluvial and lacustrine sands within the Poison Creek and Chalk Hills formations of the Idaho Group.

7. Previously drilled, local well control suggested significant variability of the presence, thickness, porosity and permeability of sands in the target section. Bridge Energy drilled the May #1-13 well (2.6 miles east of the proposed target) to 6512' and plugged and abandoned it

as a dry hole in 2010. It encountered a 40' sand at 3650' with average porosity of 15-20%. From 3700' to 4960', the well encountered various thin sands in an interval dominated by tuffaceous gray shales and siltstones (85%). The sands vary in porosity, but average 20-24%. The well encountered basalt from 4960' to 5200'; below that, other sands were encountered with porosities of 18–24%. All of these sands were wet with none tested, and the May #1-13 well was plugged and abandoned.

8. 1.25 miles WSW of the prospect, Ore-Ida Foods drilled a geothermal test to 10,024' in 1979. The correlative objective section in that well is dominated by gray claystone and siltstone, with minor subordinate amounts of sandstone.

9. In February of 2018 we directionally drilled the Fallon #1-10 test well to 5432' MD (4995' TVD), ran open hole logs on drill pipe, and set and cemented production casing. The proposed directional well plan is attached as Exhibit 1 to this statement. The actual "As-Drilled" final directional vertical section and plan view plots are attached as Exhibits 2a and 2b respectively.

10. The petrophysical logs that we acquired included Spectral Gamma Ray, Induction, Neutron/Density Porosity and Dipole Sonic logs.

11. We encountered our primary objective sand B as expected with approximately 92' of gross gas pay from 3772'-3880' MD (3453'-3545' TVD), with 70' of net pay. Sand A objective was found from 3658'-3670' MD (3355'-3367' TVD) with 10' of possible gas pay. An annotated log is attached to this statement as Exhibit 3.

12. In March of 2018, we perforated the primary objective sand from 3815'-3835' MD, and tested the well at 3.8 MMcfgd, 119 Bcpd and 6 Bwpd with 1290# ftp on a 28/64" choke. The well is currently shut-in waiting on pipeline construction and hook up.

13. The Fallon #1-10 well tested and confirmed a presumed combination structural/stratigraphic trap defined by seismic data that is now a known gas condensate reservoir.

14. Both of the objective sands were encountered 55' to 80' structurally low to pre-drill expectations: top of Sand A at 3355' TVD versus 3300' TVD expected; and top of Sand B at 3453' TVD versus expected 3374'TVD. This is likely due to a local seismic velocity gradient, and not unexpected in frontier exploration such as in Idaho.

15. As the top of the objective Sand B reservoir was expected to be encountered at approximately 3374' TVD but was encountered 80' feet structurally lower at 3453' TVD, it is appropriate to remap the sand and reconsider unit size and configuration.

16. I made structure maps of the top of Sand B and the base of the gas pay in Sand B using the logs and the seismic data. From these, I created a Net Pay Isopach Map. See Exhibits 4a and 4b attached to this statement. Exhibits 4a and 4b also include two interpreted seismic cross sections along west-east and southwest-northeast lines, which I developed to confirm the extent of the Sand B pay reflected in the Net Pay Isopach Map.

17. Our local experience producing these wells is that these gas sands produce with a water drive, or through a combination of water drive and pressure depletion. Thus, after some period of time of gas production, the well is expected to produce increasing volumes of water until it loads up and dies or reaches an economic limit. The economic limit occurs when the daily cost of disposing of the produced fresh water plus operating costs exceeds the value of the hydrocarbons produced daily. The only viable method of produced water disposal currently available is trucking to an evaporative pond disposal facility, which is very expensive (in excess of $10/bbl of water) and limits the economics of production as compared to reinjection, which is currently not available.

18. When the economic limit is reached in the current set of perforations, the well would be plugged back and reperforated near the top of the sand, (3772' MD, 3453' TVD, -1289' Subsea), which would be the structural top of the ultimate producible drainage area in a water drive reservoir.

19. The Net Pay Isopach map accounts for the above considerations. See Exhibits 4a and 4b.

20. Post drill mapping with the new well information and the 3-D seismic data locates the ultimately producible reservoir dominantly in the SW ¼ of Section 10, with minor presence in the SE ¼ of Section 9, the NE ¼ of Section 16 and the NW ¼ of Section 15. As noted above, the area efficiently and economically drainable is likely restricted by the water drive mechanism and associated cost of disposal of co-produced water. Based on rigorous interpretation of the seismic data in conjunction with the new log data, and based on the analysis set forth above, I conclude that a 160 acre unit encompassing the SW ¼ of Section 10 is the best fit to cover the lands underlaid by the gas pool, and that the proposed 160 acre unit is not smaller than the maximum area that could be effectively and economically drained by one well.

21. Our Fallon #1-10 well is located near the center of the proposed unit. Results from our testing of the well show that it produces a combination of natural gas and gas condensate, making a gas unit, as described above, appropriate.

I declare under penalty of perjury under the laws of the State of Idaho that the foregoing is true and correct.

Dated this 24th day of June, 2019.

David M. Smith

ALTA MESA

Project: Payette County, ID W'27
Area: 10-8N-5W
Site: Fallon 1-10
Well: #1-10
Wellbore: #1-10 OH
Design: Plan #1

TITAN Directional Drilling

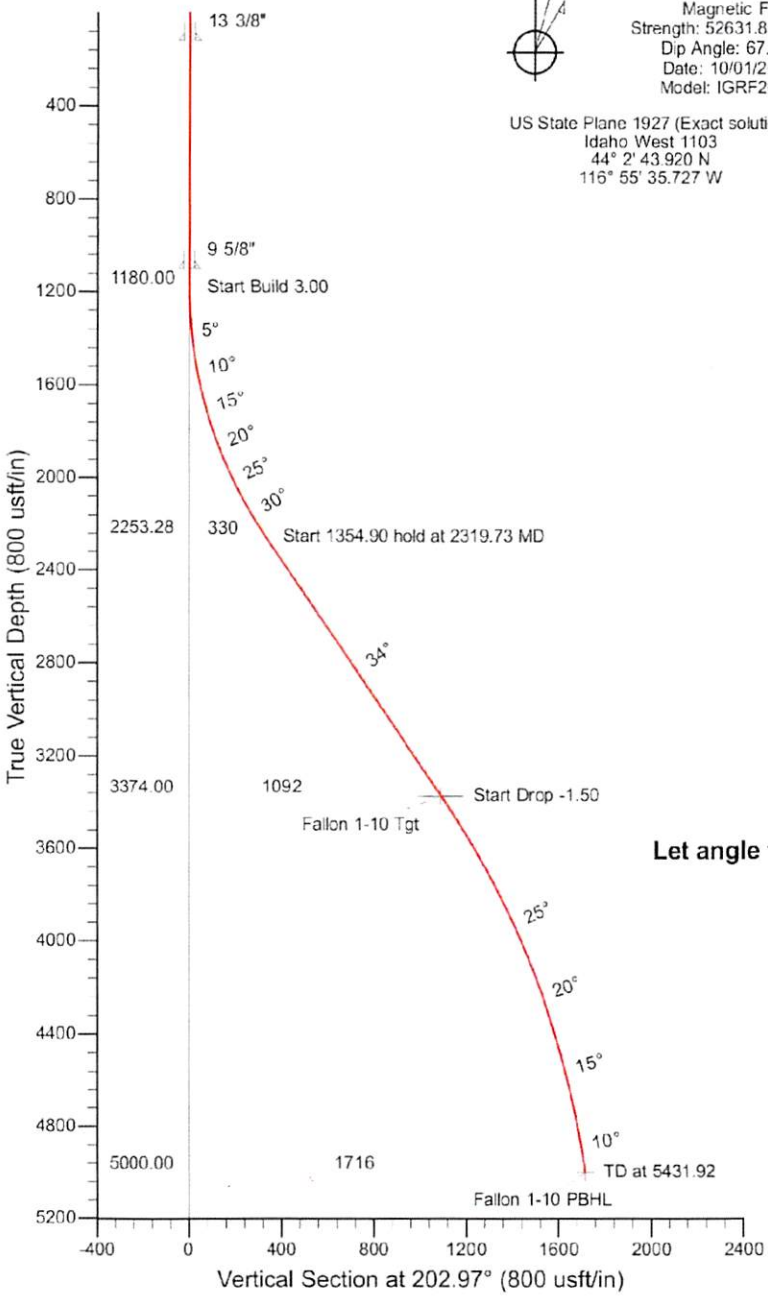
CASING DETAILS

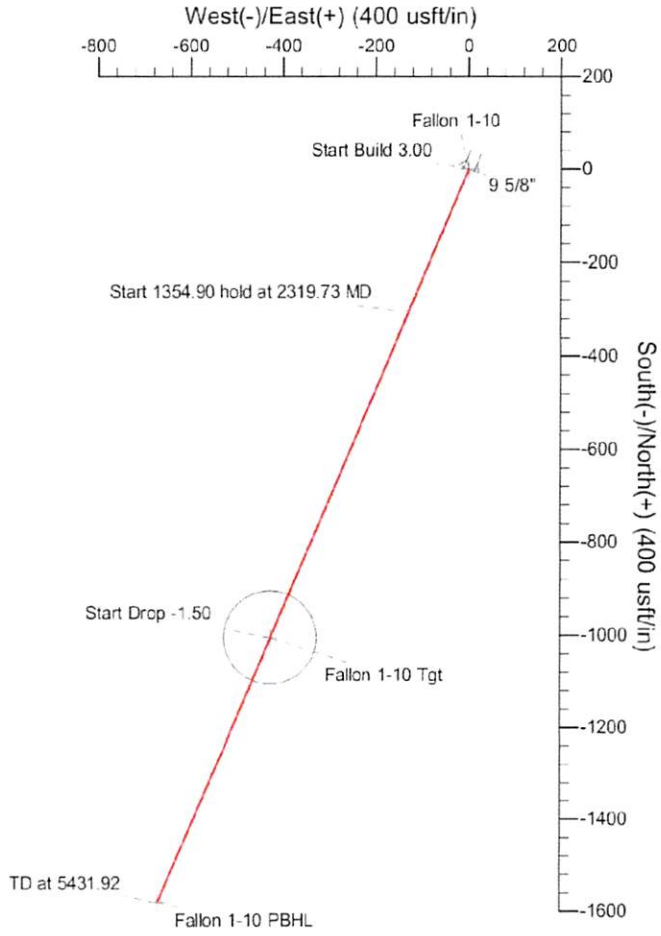
| TVD | MD | Size |
|---|---|---|
| 120.00 | 120.00 | 13-3/8 |
| 1100.00 | 1100.00 | 9-5/8 |

Azimuths to Grid North
True North: 0.82°
Magnetic North: 14.51°

Magnetic Field
Strength: 52631.8snT
Dip Angle: 67.47°
Date: 10/01/2017
Model: IGRF2015

US State Plane 1927 (Exact solution)
Idaho West 1103
44° 2' 43.920 N
116° 55' 35.727 W




**Digital lease data unavailable at time of print**

**Let angle fade to vertical after target**

# EXHIBIT 1
## Original Directional Plan

DESIGN TARGET DETAILS

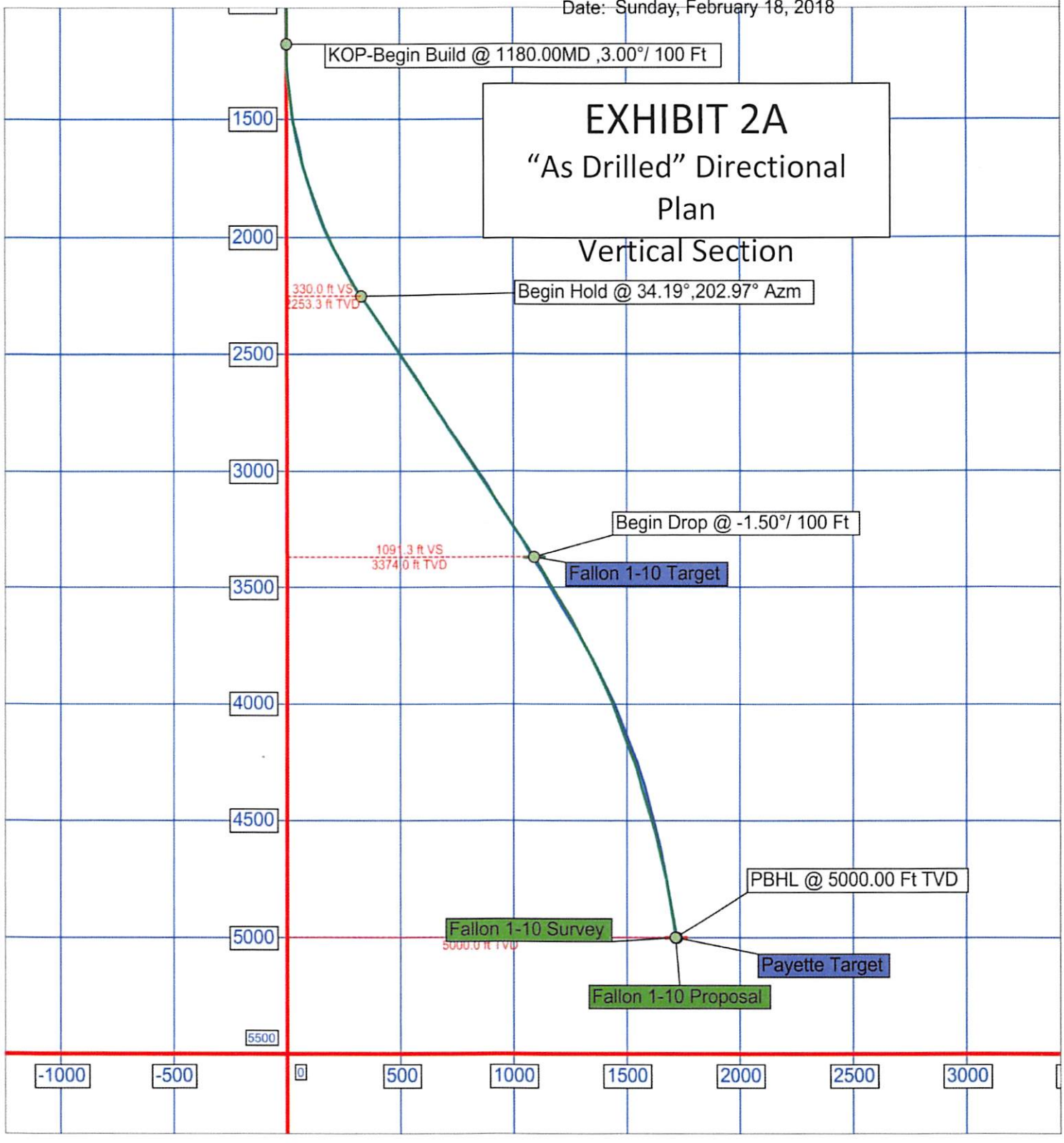
| Name | TVD | +N/-S | +E/-W | Northing | Easting | Latitude | Longitude | Sh |
|---|---|---|---|---|---|---|---|---|
| Fallon 1-10 | 0.00 | 0.00 | 0.00 | 920 869160.06 | 1907046.00 | Point 44° 2' 43. | | |
| Fallon 1-10 Tgt | 3374.00 | -1004.96 | -425.98 | 0.00 868155.103.937 N | 1902116° 55' 41.362 W | Circle (Radius: | | |
| Fallon 1-10 PBHL | 5000.00 | -1579.99 | -669.7366.24 | 867579.928.224 N | 1899116° 55' 44.586 W | Point | | |

SECTION DETAILS

| Sec | MD | Inc | Azi | TVD | +N/-S | +E/-W | Dleg | TFace | VSect | Target |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| 2 | 1180.00 | 0.00 | 0.00 | 1180.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| 3 | 2319.73 | 34.19 | 202.97 | 2253.28 | -303.92 | 30.4128.83 | 3.00 | 202.97 | 3 | |
| 4 | 3674.64 | 34.19 | 202.97 | 3374.00 | -1004.96 | 91.4425.98 | Fallon 1-10 Tgt | 0.00 | 10 | |
| 5 | 5431.92 | 7.83 | 202.97 | 5000.00 | -1579.99 | 716669.73 | Fallon 1-10 PBHL | 0.00 | 1 | |

Job Number: 201708-JMP-PGD-01
Company: Paul Graham Drilling / Alta masa
Lease/Well: Fallon 1-10
Location: Idaho
Rig Name: Paul Graham Drilling
State/County: Idaho/ Payette
Country: USA
API Number: ?

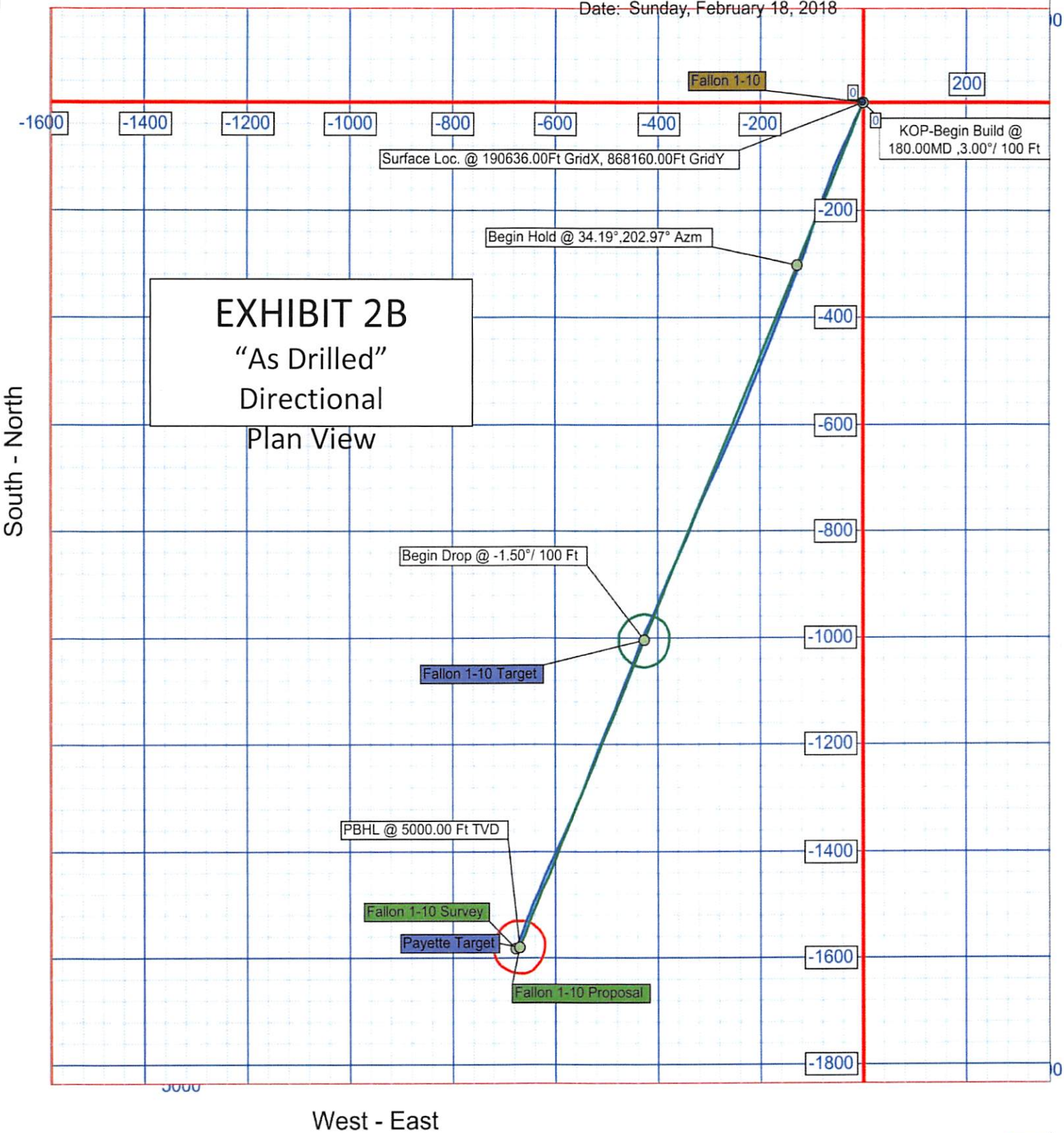
Elevation (To MSL): 0.00 ft
RKB: 0.00 ft
Projection System: US State Plane 1927 (Exact solution)
Projection Group: Idaho West 1103
Projection Datum: CLARKE 1866
Magnetic Declination: 13.67
Grid Convergence: -0.81810 W
Date: Sunday, February 18, 2018



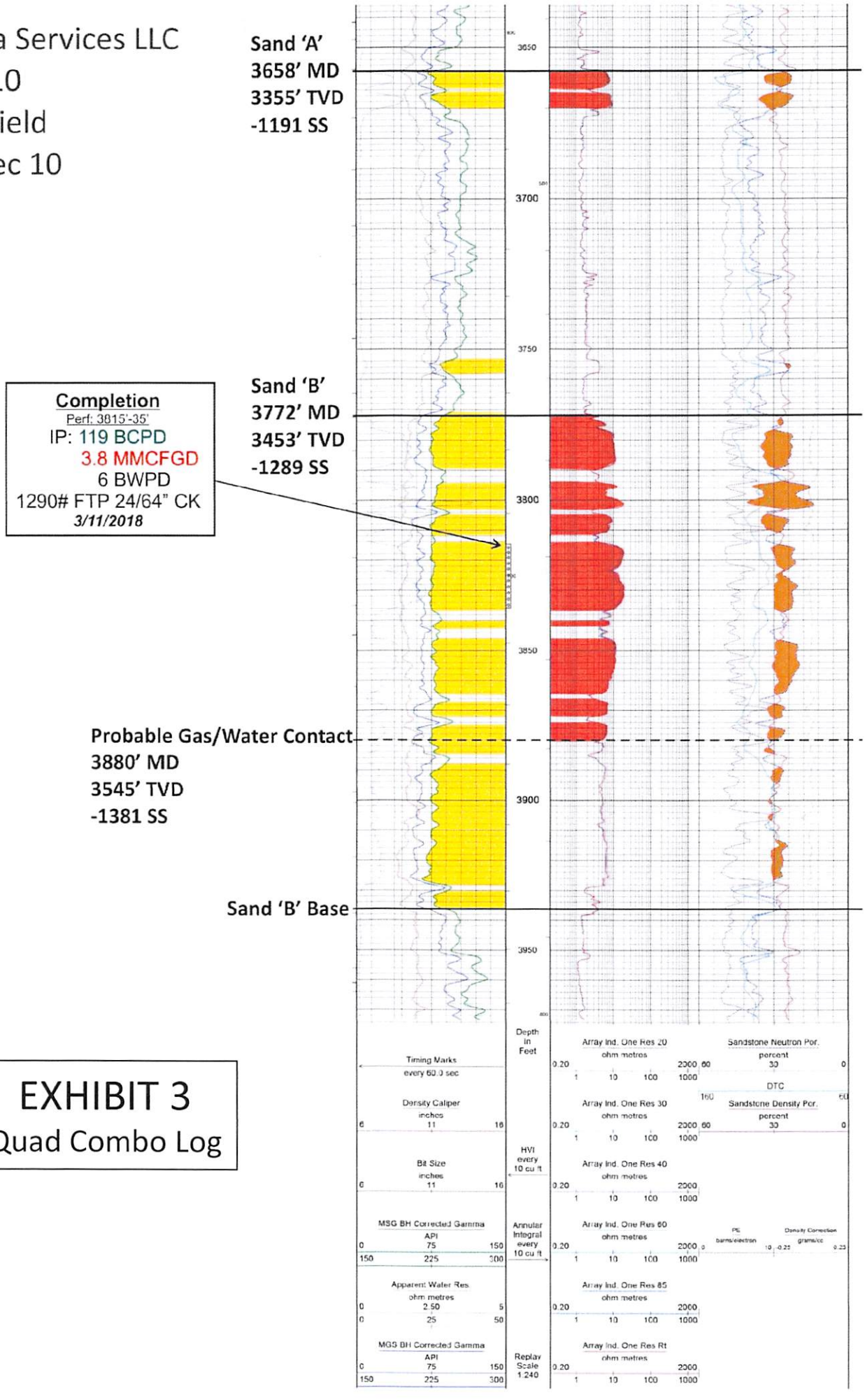

Vertical Section (500 Ft/Div) VSP: 202.00°

Job Number: 201708-JMP-PGD-01
Company: Paul Graham Drilling / Alta masa
Lease/Well: Fallon 1-10
Location: Idaho
Rig Name: Paul Graham Drilling
State/County: Idaho/ Payette
Country: USA
API Number: ?

Elevation (To MSL): 0.00 ft
RKB: 0.00 ft
Projection System: US State Plane 1927 (Exact solution)
Projection Group: Idaho West 1103
Projection Datum: CLARKE 1866
Magnetic Declination: 13.67
Grid Convergence: -0.81810 W
Date: Sunday, February 18, 2018

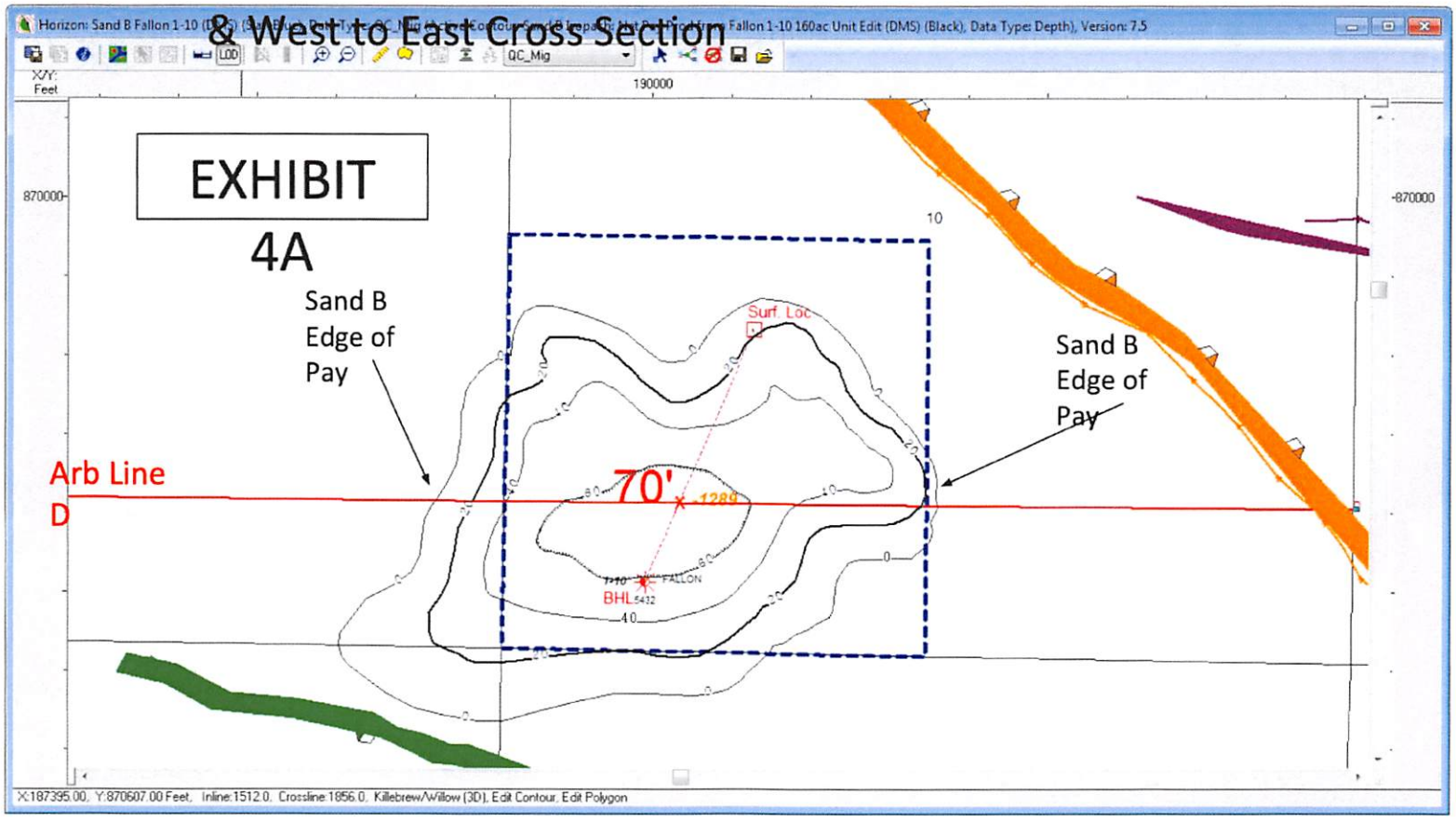


Alta Mesa Services LLC
Fallon 1-10
Wildcat Field
8N-5W Sec 10
KB 2167'

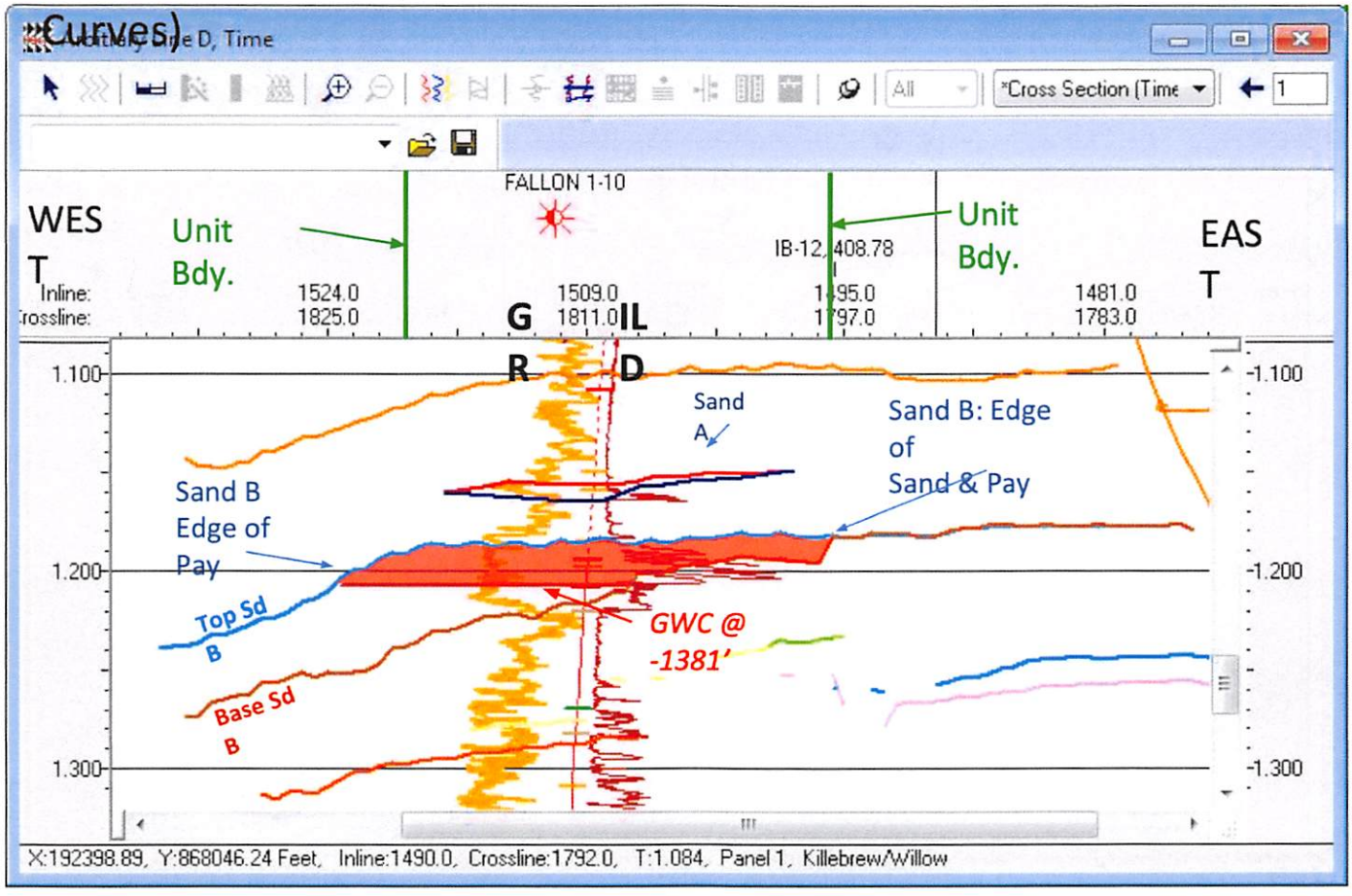



# EXHIBIT 3
## Quad Combo Log

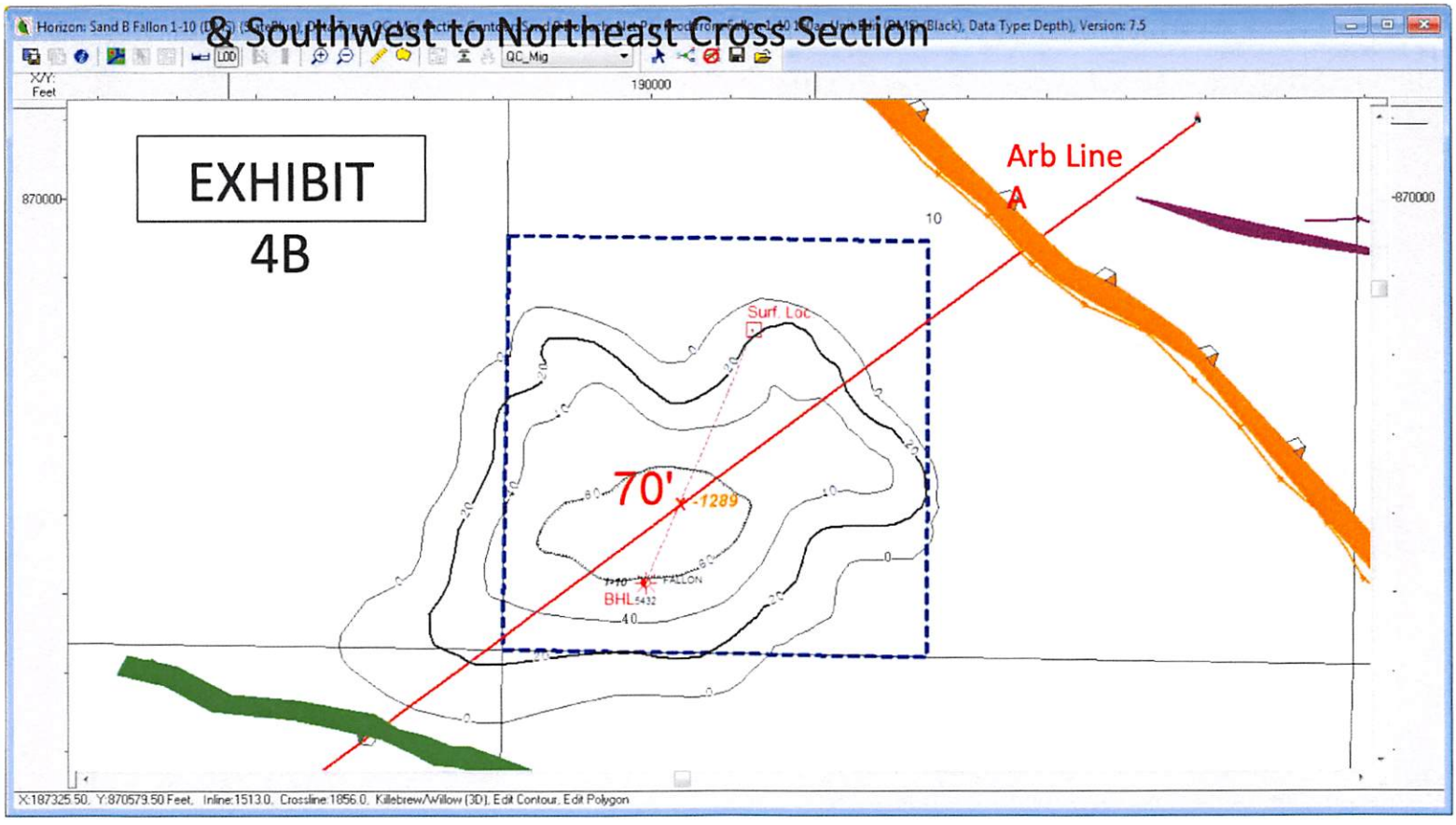
Sand B: Net Pay Isopach with proposed Unit Outline & West to East Cross Section



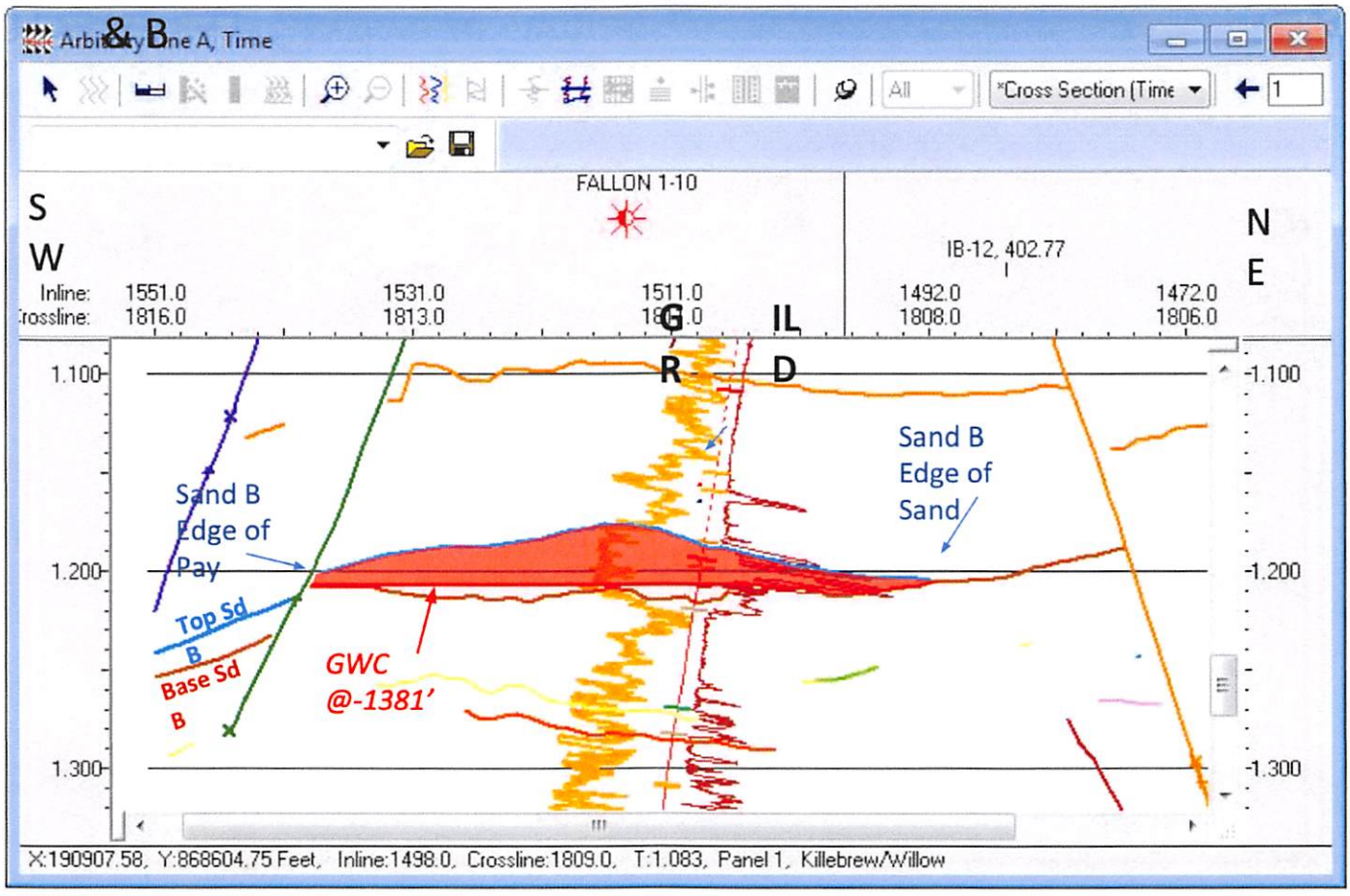

West-East Arb Line, shows extent of Sands A & B (GR & Ind. Log Curves)



Sand B: Net Pay Isopach with proposed Unit Outline & Southwest to Northeast Cross Section




Southwest to Northeast Arb Line, shows extent of Sands A & B



**BEFORE THE OIL AND GAS CONSERVATION COMMISSION**
**STATE OF IDAHO**

| | | |
|---|---|---|
| **In the Matter of Application of AM Idaho, LLC, for Spacing Order and Integration of Unleased Mineral Interest Owners in the SW ¼ of Section 10, Township 8 North, Range 5 West, Boise Meridian, Payette County, Idaho**<br><br>**AM IDAHO, LLC, Applicant.** | ) | Docket No. CC-2019-OGR-01-002 |

## DECLARATION OF WADE MOORE III

STATE OF IDAHO )
) ss
County of ADA )

Wade Moore III declares:

1) I am over 18 years of age and competent to testify to the matters set forth in this Affidavit, which I make based on my personal knowledge.

2) As Senior Landman for AM Idaho, LLC ("AMI") I am responsible for the leasing of mineral interests in the SW ¼ of Section 10, Township 8 North, Range 5 West, Payette County, Idaho ("the subject spacing unit").

3) Pursuant to Idaho Code § 47-320(6), AMI has support from more than fifty-five percent (55%) of the mineral interest acres in the subject spacing unit (specifically, approximately 65.1375%) by leasing. AMI is an "owner" for purposes of Idaho Code § 47-320(a) and § 47-310(23) by virtue of its status as mineral lessee within the unit.

4) Pursuant to Idaho Code 47-320, the highest bonus payment paid to lease mineral interest owners in the subject spacing unit prior to filing this integration application is $100 per net mineral acre.

5) At my direction, the Applicant has made good faith efforts to lease the mineral interests in the subject spacing unit. Pursuant to Idaho Code 47-320(4)(j): (a) included in Exhibit F attached to the Application is a Resume of Efforts; (b) Applicant notified all uncommitted mineral owners in the unit of Applicant's intent to develop by certified mail; all mailing receipts are attached as Exhibit G to the Application; and (c) a copy of a sample of the form of letter mailed to known uncommitted mineral owners along with the proposed form of lease, as indicated in item (b), above, is attached to the Application as Exhibit H. Unit description and gross acres were inserted in the letter as appropriate for each owner. Economic terms varied depending on the owner and tract size. Since the last mailing, Applicant signed some of the previously uncommitted mineral interest owners at $100 per acre, or a flat bonus of $50 for tracts an acre or less.

6) Pursuant to Idaho Code 47-320(6), Applicant requests that integration be ordered based upon the current percentage of mineral interest leased, based on the following:

(a) Applicant has obtained consent from at least fifty-five percent (55%) of mineral interest acres;

(b) As set forth in Exhibit F to the Application, Applicant has negotiated diligently and in good faith for a period of at least one hundred twenty (120) days prior to the application for an integration order; and

(c) The uncommitted owners in the affected unit shall receive from Applicant mineral lease terms and conditions regarding royalty that are no less favorable to the lessee than those set forth in Idaho Code § 47-331(2), i.e., 1/8 royalty.

(d) The Application for integration will be subject to the procedures set forth in Idaho Code § 47-328.

7) Pursuant to Idaho Code § 47-320(3)(b), Applicant requests that the Order integrating the uncommitted mineral interests in the unit provide for a risk penalty of 300% for those interest owners electing to become nonconsenting working interest owners. This risk penalty is appropriate given the following facts:

(a) Applicant is bearing all of the expense necessary to bring organize the spacing unit, drill the well, and bring it to production, including but not limited to title and leasing, acquisition and interpretation of seismic data, the expense of creating and integrating a spacing unit, drilling, testing and completion of the well, design and construction of processing and transportation infrastructure, and administration of revenues and royalties for the life of the well.

(b) The requested 300% risk penalty is consistent with the penalty for nonconsenting working interest status under Applicant's joint operating agreement with its operating partners; thus the requested risk penalty places those owners electing nonconsenting working interest status on equal footing with Applicant's existing operating partners.

(c) The well drilled in the unit is a "wildcat" well in an area of limited knowledge of and experience with the geology, entailing higher risk to Applicant than a well drilled in a fully developed area.

(d) The Fallon #1-10 well targets a conventional sand. The area is not a "resource play" involving the development of a shale resource of consistent depth and thickness over a large area, making targeting more technically complex and higher risk. While initial testing of the well was promising and suggests the well will be commercially productive, full production is necessary to fully determine its economics.

(e) The unit is located in an area lacking developed infrastructure for making product from a successful well market ready and transporting product, increasing the risk of development.

(f) Because of the frontier nature of the play in which the unit is located, well service contractors are largely unavailable locally, and a drilling rig had to be sourced from out of the area, increasing mobilization and operating expense. Because of these factors the well was significantly more expensive to drill than in a developed and currently producing area.

I declare under penalty of perjury under the laws of the State of Idaho that the foregoing is true and correct.

Dated this 21 day of June, 2019.

Wade Moore III

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

# MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

_____ , _____ , **the Effective Date**
*year*

OPERATOR **AM IDAHO, LLC**

CONTRACT AREA **WILLOW HAMILTON**

COUNTY OR ~~PARISH OF~~ **PAYETTE** , STATE OF **IDAHO**

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# A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

## OPERATING AGREEMENT

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

**WITNESSETH:**

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

NOW, THEREFORE, it is agreed as follows:

## ARTICLE I.
## DEFINITIONS

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

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder.

B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well **capable of producing** / ~~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. ~~For horizontal wellbores, the term "Completion" shall also mean multi-stage horizontal fracturing operations.~~

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

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, ~~whichever is the lesser.~~ / ~~For horizontal wellbores, the terms "Deepen" shall also mean an operation whereby a well is drilled to an objective measured depth greater than the measured depth in the previously drilled well or proposed AFE.~~

E. 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.

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

G. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located.

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

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

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

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

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

M. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the **oil and gas leases, oil and gas lease options, farmouts, seismic options, seismic permits, fee mineral interests or other interests in oil, gas and other minerals; provided however, the term shall not include Oil and Gas Interests as defined above** ~~oil and gas leases or interests therein~~ covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

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

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

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

Q. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties~~; and for horizontal wellbores, an operation by which a lateral wellbore is drilled off of the horizontal wellbore.~~ .

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

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

## ARTICLE II

_____ G. Exhibit "G," ~~Tax Partnership~~ **Memorandum of Operating Agreement and Financing Statement**.

~~H. Other:~~ _____

**END OF PAGE 1**

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

## 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 **a mutually acceptable** / ~~the~~ form of Oil and Gas Lease ~~attached hereto as Exhibit "B,"~~ and the owner thereof shall be deemed to own both royalty interest 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, however, to the payment of royalties and other burdens on production as described hereafter.

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

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

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby, and in the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in said Leaseholds shall be deemed separate leasehold interests for the purposes of this agreement.

**C. Subsequently Created Interests:**

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

The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and alone bear, pay and discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other parties from and against any liability therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article 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. If the Burdened Party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said Subsequently Created Interest, and the Burdened Party shall indemnify, defend and hold harmless said other party, or parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.

## ARTICLE IV.
## TITLES

**A. Title Examination:**

Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or

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

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

**B. Loss or Failure of Title:**

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE V.
## OPERATOR

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

AM IDAHO, LLC shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. 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 except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct.

**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 only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours (**exclusive inclusive of Saturdays and Sundays and U.S. Federal holidays**) of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

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

2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, 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 or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

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

**C. Employees and Contractors:**

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

**D. Rights and Duties of Operator:**

1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. (**for comparable equipment and personnel**) If it so desires, Operator may employ its own tools and equipment in

liens and encumbrances resulting therefrom except for those resulting from a bona fide dispute as to services rendered or materials supplied.

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

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

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

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

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

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

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

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

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

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

## ARTICLE VI.
## DRILLING AND DEVELOPMENT

**A. Initial Well:**

Restore original language in 52 & 53

~~On or before the _____ day of _____, _____, Operator shall commence the drilling of the Initial Well at the following location:~~ **~~No Initial Well shall be proposed pursuant to that certain Participation Agreement dated effective January 1, 2012, between AM Idaho, LLC and Bridge covering the Willow and Hamilton Area.~~**

~~and shall thereafter continue the drilling of the well with due diligence to~~ Restore this original language

under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, ~~exclusive~~ **inclusive** of Saturday, Sunday and / ~~legal~~ holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. ~~Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.~~

**U.S. Federal**

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

2. Operations by Less Than All Parties:

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

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

**U.S. Federal**

**or email**

**U.S. Federal**

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and

Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or measured by the production from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

(i) **200.0** % 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

(ii) ~~500.0~~ 300.0 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

(c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties ~~500.0~~ 300.- % of that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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

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

Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing, Recompleting, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~☑ Option No. 1: / Aall necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and equipping of the well, including necessary tankage and/or surface facilities.~~ **For all Horizontal Wells only,**

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

**For all vertical wells and wells not considered Horizontal Wells, fifteen (15) days, or, if a rig is on location, U.S. Federal**

**without limitation including, but not limited to, pipelines, flow lines, meters and meter sites, taps and tap sites,**

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

**D. Other Operations:**

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of **Fifty Thousand and no/100** Dollars ($ **50,000.00**) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of **Fifty Thousand and no/100** Dollars ($ **50,000.00**). Any party who has not relinquished its interest in a well shall have the right to propose that

plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (~~exclusive~~ **inclusive** of Saturday, Sunday and / ~~legal~~ holidays) after delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (~~exclusive~~ **inclusive** of Saturday, Sunday and / ~~legal~~ holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.

2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any 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. Failure of a party to reply within ~~sixty (60)~~**thirty (30)** days of delivery of notice of proposed abandonment shall be deemed an election to consent to the proposal. If, within ~~sixty (60)~~**thirty (30)** days after delivery of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession of such well and plug and abandon the well.

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

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article.

~~Upon request,~~ Operator **may, at its sole discretion, elect** / ~~shall continue~~ to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

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

**F. Termination of Operations:**

Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing, Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without

directly from the purchaser thereof for its share of all production.

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil or sell it to others at any time and from time to time, for the account of the non-taking party **at the same price obtained for Operator's share of production under an arms length third party purchase or sales contract**. Any such purchase or sale by Operator may be terminated by Operator upon at least ~~ten (10)~~ **thirty (30)** days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ~~ten (10)~~ **thirty (30)** days written notice to Operator to exercise at any time its right to take in kind, or separately dispose of, its share of all Oil**.** ~~not previously delivered to a purchaser.~~ Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year **provided however, that the effective date of any such revocation may be deferred at Operator's election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term extending beyond such thirty (30) day period**.

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

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

In the event one or more parties' **fail to take in kind or separately dispose of its/their proportionate share of gas, and if such parties'** separate disposition of its/**their** 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 parties shall be in accordance with ~~any~~ **the** Gas ~~b~~**B**alancing ~~a~~**A**greement between the parties hereto, **in the form** / ~~whether such an agreement is~~ attached as Exhibit "E" ~~or is a separate agreement~~. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement. **If any party creates the necessity for separate measurement facilities such party shall bear all costs related to purchase, installation and maintenance of such facilities.**

~~⊟ Option No. 2: No Gas Balancing Agreement:~~

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

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

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

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

principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other with respect to activities hereunder.

**END OF PAGE 11**

**B. Liens and Security Interests:**

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

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

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

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

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

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

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

**C. Advances: Advancement of estimated costs shall be in accordance with Article XVI.C**

only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator, and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator. Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified below or otherwise available to a non-defaulting party.

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

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

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

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

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

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

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid **Operator for the joint account of the parties hereto. Operator shall bill the parties hereto for their proportionate share of all such payments in accordance with the COPAS attached as Exhibit "C".** by the ~~/~~ party or parties who subscribed 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.~~**3**

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

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 Gas produced under the terms of this agreement.

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

**A. Surrender of Leases:**

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

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

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

**B. Renewal, ~~or~~ Extension or Acquisition of Leases:**

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

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

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

The provisions of this Article shall apply to ~~renewal or replacement~~ **Oil and Gas** / Leases whether they are for the entire interest covered by the expiring Lease or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the expiration of its predecessor **Oil and Gas** / Lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the existing Lease, shall be subject to this provision so long as this agreement is in effect at the time of such acquisition or at the time

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

**D. Assignment; Maintenance of Uniform Interest:**

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

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

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

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

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

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

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

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

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

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

## ARTICLE IX.
## INTERNAL REVENUE CODE ELECTION

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

## ARTICLE XI.
## FORCE MAJEURE

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

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

## ARTICLE XII.
## NOTICES

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

## ARTICLE XIII.
## TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject hereto for **a period of six (6) months after the last Oil and Gas Lease, or extension or renewal thereof, within the Contract Area expires or is terminated.** ~~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 the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of _____ days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within _____ days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.~~

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

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

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

**END OF PAGE 16**

orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

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

## ARTICLE XV.
## MISCELLANEOUS

**A. Execution:**

This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. ~~Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. In the event Operator proceeds with drilling operations for the Initial Well without the execution hereof by all persons listed on Exhibit "A" as having a current working interest in such well, Operator shall indemnify Non-Operators with respect to all costs incurred for the Initial Well which would have been charged to such person under this agreement if such person had executed the same and Operator shall receive all revenues which would have been received by such person under this agreement if such person had executed the same.~~

**B. Successors and Assigns:**

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

**C. Counterparts:**

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

**D. Severability:**

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

## ARTICLE XVI.
## OTHER PROVISIONS

~~**This Agreement shall be subject to that certain Participation Agreement dated the January 1, 2012, between AM Idaho, LLC and Bridge Energy, Inc., et al, covering the Willow and Hamilton Area. If any provision of this Agreement is in conflict with any provision of said Participation Agreement, the provisions of the Participation Agreement shall govern and control.**~~

Except as to the Initial Well.

**Notwithstanding anything herein to the contrary, if any provision of this Article XVI is in conflict with Articles I. through XV of this Operating Agreement or any Exhibit to this Operating Agreement, the provisions of this Article XVI shall govern and control.**

**A. PRIORITY OF OPERATIONS**

**1. When any well has been drilled to its authorized depth, if the Consenting Parties to the drilling of such well cannot mutually agree upon the conduct of further operations, the operations proposed to be conducted shall be governed by the following sequence of priority:**

**(a) a proposal to do additional logging, coring or testing of the open hole; then**
**(b) a proposal to attempt to complete the well in the objective formation; then**
**(c) a proposal to plug the well back and to attempt a completion in a formation above or below the objective formation; then**
**(d) a proposal to deepen the well; then**
**(e) a proposal to sidetrack the well; then**
**(f) a proposal to plug and abandon the well.**

**No party may propose any operation with respect to any well under this Article (i) while there is pending a prior proposal for any operation respecting such well until that proposal is withdrawn or terminates, or until the operation contemplated thereby has been**

(f) Drilling Prognosis.

The receiving parties shall have a period of thirty (30) days after receipt of such Proposal in which to make their participation election in the Proposed Well by returning to the Operator its election and approved AFE. If a Party elects not to participate in the Proposed Well or fails to timely notify Operator of its election within said thirty (30) days of receipt of such Proposal, that party shall, by such election or inaction, be deemed a Non-Consenting Party and shall have forfeited, without recourse, compensation or reimbursement of costs, all of its rights, title and interests in and to the Proposed Well and all Oil & Gas Interests associated with the Proposed Well as provided in Article XVI. D, below. In the event the initial well is not drilled within the time frames provided under this Operating Agreement, the Well Proposal shall be considered as though it had never been made. Any funds forwarded to the Operator shall be returned within ten (10) business days of the expiration of the ninety (90) day period and any interest forfeited shall be returned or assigned back to the Non-Consenting Party.

2. No more than four (4) well proposals may be outstanding at any one time, unless it is necessary to sooner commence drilling operations on another well to preserve one or more leases, to satisfy an express off-set well obligation, or farmout.

3. For the purposes of this Article XVI.B, a proposal is no longer considered outstanding when a well has been Completed, abandoned, or drilling operations are not commenced within the time period allowed for proposed operations under this Operating Agreement.

C. ADVANCEMENT OF COSTS

1. DRILLING COSTS

Operator shall from time to time call for and receive from Non-Operators, payment in advance of Non-Operators' share of the estimated cost to drill any well to its total depth, to conduct open hole tests, therein, prior to a completion attempt, and to plug and abandon same as a dry hole, which right will be exercised by submission to Non-Operators, of an AFE and invoice for Non-Operators' share thereof. Non-Operators shall, within thirty (30) days following receipt of Operator's Invoice and AFE, deliver to Operator, Non-Operators' share of the Invoice and approved AFE. Failure by any Non-Operator to timely deliver its share of cost and approved AFE shall constitute an election to not participate in the drilling of such well; and in the event such well is the Initial Well or Substitute Well, such Non-Operator shall be deemed to have forfeited, without recourse, all of its right, title and interest in and to the Contract Area; or in the event such well is any well other than the Initial Well or Substitute Well ("Subsequent Well") the terms of Article XVI.D shall apply. Proper adjustment shall be made between advances and actual expenses, to the end that Non-Operators will pay only its share of actual costs.

2. OTHER THAN DRILLING COSTS

Operator, at its discretion, may from time to time demand and receive from one or more of the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations proposed under this Agreement Article VI. Operator shall submit to each such party, along with written notice of the proposed operation, an AFE itemizing such estimated expense, together with an invoice for its share thereof. Each party shall pay to Operator its proportionate share of such estimate within the time frame provided for delivery of notification of said Party's election to participate in the proposed operation. Failure by any Party to timely deliver its share of said estimated expense within said time frame shall constitute an election to not participate in such operations, except for in the case of elections under Article VI.E.

D. NON-CONSENT TO DRILL WELLS

Notwithstanding anything in this Operating Agreement to the contrary,

1. Article VI.B.2. shall not apply to any Party's election not to join in and pay for the drilling of a well on a Contract Area.

In the event any Party elects not to drill any well, the Non-Consenting Party shall, if such well is completed as an oil and/or gas well, immediately assign to the Consenting Parties, all rights, title and interests in and to the well and wellbore, including, without limitation, all production and revenues related thereto, all equipment and facilities, personal property, rights of ingress and egress, surface access and use, related thereto.

Such assignment shall convey all rights between the surface and the total depth drilled in such well, plus 100.0 feet.

2. In the event any well is not commenced within 90 days of proposing such well and thereafter drilled to its authorized depth, or is timely commenced and thereafter drilled to its authorized depth but is thereafter plugged and abandoned as a dry hole, no assignment by the Non-Consenting Party shall be due.

3. Article VI.B.2. will not apply to any operation which is necessary to perpetuate an expiring Oil and Gas Lease or interest therein or to perpetuate or earn rights in and to a lease pursuant to a farmout or other exploration agreement, including an operation required in the continuous development provision of a lease, farmout or other exploration agreement ("Required Operation"). If any Party elects not to participate in a Required Operation, the Non-Consenting Party will assign to the Consenting Parties that portion of the Contract Area(s) as set forth in Article XVI.N.3, below.

4. Nothing herein shall ever be construed so as to require an assignment of any Non-Consenting Party's interest in a producing well, or any land or lands in the contract area perpetuated thereby.

5. Any assignment shall not relieve the Non-Consenting Party from any obligation, liability or responsibility theretofore incurred.

E. NON-CONSENT TO COMPLETE, REWORK, RECOMPLETE, DEEPENING, SIDETRACKING OR PLUGGING BACK OPERATION

1. Article VI.C.1. Option No. 2 shall apply to the completion of all wells.

F. DEFAULT

1. If any Party, including the Operator, fails to pay its share of any cost which it is obligated to pay under any provision of this Agreement ("Defaulting Party"), and if such default continues for a period of fifteen (15) days following delivery by any of the other Parties ("Non-Defaulting Parties") of written notice of such default to the Defaulting Party, then at any time after the expiration of such notice period, the Non-Defaulting Parties shall be entitled to the following remedies:

(a) The Non-Defaulting Parties may suspend by written notice, any or all of the rights of the Defaulting Party under this Agreement, without prejudice to the right of the Non-Defaulting Parties to continue to enforce the obligations of the Defaulting Party under this Agreement. 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 elect to participate in any subsequent operation regarding the well to which the default relates, or any subsequent operation proposed under this Agreement; and

(b) The Non-Defaulting Parties may take any action to which it may be entitled or pursue any remedy to collect the amounts in default, together with all 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 the Accounting Procedure together with reasonable attorney's fees and court costs related thereto; or

(c) The Non-Defaulting Parties may deliver a written notice to the Defaulting Party at any time after the default occurs with the following effect:

(i) If the billing is for the completion or recompletion of a well, the Defaulting Party will be deemed conclusively to have elected not to participate in the subject operation under Paragraph VI.B.2. above from the time of the billing, which led to the default and to be a Non-Consenting party with respect thereto, notwithstanding any election to participate theretofore made.

(ii) Until the delivery of such notice to the Defaulting Party, the Defaulting Party shall have the right to cure its default by paying the unpaid billing(s) plus interest at the rate set forth in the Accounting Procedure. Any interest relinquished pursuant to this Paragraph shall be owned by the Non-Defaulting Parties pursuant to Paragraph VI.B.2. above, and the Non-Defaulting Parties shall be liable to contribute its share of the defaulted amount.

(iii) The Operator on behalf of the Non-Defaulting Parties may reduce any and all revenues, if any, attributed to the Defaulting Party's interest by the amount in default plus any interest charges accruing on such defaulting amount as provided in the Accounting Procedure.

2. Notwithstanding the other provisions of this Paragraph, if a Party fails to pay part or all of its share of costs hereunder because of a legitimate disagreement as to the appropriateness of part or all of the billing(s) in question, and if such Party makes such disagreement and the grounds therefore known to the other Party in writing prior to the due date of such billing and timely tenders payment of all undisputed amounts, then such Party shall not be subject to Section 1. (a) or 1. (c) of this Paragraph.

3. Notwithstanding anything in this Operating Agreement to the contrary, in the event a Defaulting Party fails to pay its share of costs which it is obligated to pay under any provision of this Agreement within fifteen (15) days after Defaulting Party's receipt of notice of such failure to pay, the Operator, at its sole discretion, may withhold from a Non-Operator's production revenues related to any well Operator operates pursuant to the Exploration Agreement all accrued unpaid lease operating expenses, past due balances, and accrued unpaid expenses allocated to any well Operator operates on behalf of a Non-Operator pursuant to the Exploration Agreement.

G. OPERATIONS ON PRODUCING WELLS

1. No well producing in paying quantities shall be reworked, recompleted or deepened, or plugged and abandoned without the consent of all Parties, except that a well producing in paying quantities may be "fraced" or otherwise stimulated for the purposes of enhancing existing production with the consent of the parties owning or representing at least 60.0% Percentage Interest in the well.

2. The provisions of Article VI.B. will apply to a proposal by any Party desiring that one or more producing zones within a well be "fraced" or otherwise stimulated for purposes of enhancing existing production. Except as set forth in Paragraph 1. above, any such proposed stimulation of a producing well may be performed if so approved by the Parties owning the working interest in such well or zone. The Party electing not to participate in the stimulation effort will be deemed a Non-Consenting Party and, as to such stimulation, will be subject to the penalties otherwise provided in Article VI.B.2. (a) and (b). The Consenting Parties in the stimulation effort will not be liable in damages to the Non-Consenting Party, if, as a consequence of the attempted stimulation, the well or zone is damaged, lost or destroyed.

H. PIPELINE AND/OR GATHERING LINE CONSTRUCTION

(a) For each well within the Contract Area, each party shall pay its proportionate share of all pipeline, gathering and related facilities costs constructed within the Contract Area.

(b) If any Party elects, in an operation not covered by Article VI, to construct, operate or purchase, or join in the construction, operation or purchase of a pipeline and/or gathering line to transport production from, but not within, the Contract Area, then such Party shall notify the other Parties furnishing all pertinent costs and information. The Parties receiving such notice shall have the right to participate in the construction, operation and ownership of such pipeline and/or gathering line by assuming their proportionate shares of the obligations and paying the costs attributable thereto.

I. COST ALLOCATION

such lease or leases at least 40 days in advance of such payments being due. Failure to notify Operator and such other parties of a party's election at least 40 days in advance of the rental payment due date shall be deemed an election to participate in payment of rentals. If at any time a party elects not to participate in payment of a delay rental, then the parties electing to participate in the payment shall have the right to assume their respective proportionate shares of the interest in the affected lease of the party electing not to participate by providing written notice to the other participating parties and Operator within 10 days after receipt of the notice of a party's election not to participate. Failure to provide such notice shall be deemed an election not to assume an interest. In the event that after such elections an interest in the affected lease remains that has not been assumed, Operator within 48 hours shall notify the participating parties, who may elect to assume their respective proportionate shares of such remaining interest by providing written notice within 48 hours after receipt of notice of the interest that is available; failure to provide such notice shall be deemed an election not to assume an additional interest. If, after all such elections, an interest remains that has not been assumed by a party, then, at Operator's sole discretion, the Operator may elect either to assume the remaining interest and make the delay rental payment or elect not to make the rental payment and allow the affected lease or leases to lapse and shall notify all of the parties.

A party electing to terminate its interest in a lease or leases shall assign its interest therein to the participating parties free of any overriding royalty interests, net profits interests or other burdens or encumbrances other than the lessor's royalties and any burdens listed on Exhibit "A" hereof. Any such lease or leases shall be removed from the terms of this Operating Agreement but shall be subject to the terms of an identical operating agreement between the participating parties with only the interests of the parties changed on Exhibit "A".

## K. GAS MARKETIGN BY OPERATOR AND OPERATOR AS DISBURSING AGENT FOR NON-OPERATOR

### 1. Gas Marketing by Operator

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of Gas produced from the Contract Area, Operator shall have the right, but not the obligation, to purchase such Gas or sell it to others at any time and from time to time, for the account of the non-taking party at the same price obtained for Operator's share of Gas production under an arms length, third party, purchase or sales contract. Any such purchase or sale by Operator may be terminated by Operator with a thirty (30) day prior written notice to the owner of such Gas production. The owner of such Gas production shall, with a thirty (30) day prior written notice to Operator, have the right at any time to exercise its right to take in kind, or separately dispose of, its share of Gas production, provided, however, that such Gas production is not committed under a gas sales, transportation or marketing contract. Any purchase or sale by Operator of any party's share of Gas under a gas sales, transportation or marketing contract shall be only for such reasonable periods of time as are consistent with gas sales, transportation or marketing contracts for similar gas produced in the vicinity of the Contract Area.

### 2. Operator as Disbursing Agent

Subject to the right of Non-Operator to take in kind its share of production from the Contract Area(s), Non-Operator designates Operator as the agent of Non-Operator to receive and disburse the proceeds derived from the sale of oil and gas produced from the Contract Area(s), including, but not limited to, disbursements to Non-Operators, royalty owners, and payment of severance and production taxes. Subject to provisions of the lien, security and default provisions of this Operating Agreement, Operator shall remit to Non-Operators their proportionate share of such proceeds within thirty (30) days after the receipt by Operator of such proceeds, less such Non-Operators share of all severance and production taxes.

## L. AFE/COST OVERRUNS

Notwithstanding anything herein to the contrary, Operator shall not expend for any drilling, Completion, Reworking, Sidetracking, Deepening, Plugging Back or Recompleting operation an amount in excess of 115% of the amount authorized for the total operation by virtue of the original or initial AFE without first submitting a Supplemental AFE(s) to the Non-Operator(s) for approval. Any Non-Operator receiving such a Supplemental AFE(s) shall have a period of three (3) days which to either approve or reject the additional expenditure (however, if a rig is on location, every such Non-Operator shall make its best efforts to respond within 24 hours). Failure to respond shall constitute approval. In the event of non-approval, all subsequent operations conducted pursuant to such Supplemental AFE(s) shall be subject to the provisions of Article VI.B.2. Operations By Less Than All Parties, provided, however, that if a Non-Operator rejects the additional expenditure and the operation being conducted is a Required Operation, said Non-Operator shall assign and forfeit to the parties continuing with the operation all of its interest in the leases or portions thereof and to the formations and depths covered thereby which would be lost or not earned if such operation is not continued. This paragraph shall not apply to expenditures by the Operator which are required to deal with explosion, fire, flood or other sudden emergency, whether of the same or different nature, or operations required to maintain the hole in a stable condition.

## M. INFORMATION DISTRIBUTION LIST/GEOLOGICAL WELL REQUIREMENTS

Attached hereto as Exhibit "G", entitled "Information Distribution List/Geological Well Requirements," is a summary of the notice and data requirements which Operator hereby agrees to observe and perform with respect to each Non-Operator.

## N. REQUIRED OPERATIONS

1. If a proposal is made for the drilling, Deepening, Reworking, Plugging Back, Sidetracking or Recompleting of a well or wells or for any other operation proposed or required within six months of the expiration of any right and/or interest subject to this Operating Agreement in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn an interest in and to oil and/or gas and other minerals which may be owned by any third party or preserve any rights to such interest which, failing such operation, would revert to a third party, or (4) comply with an order issued by a regulatory body having jurisdiction over the premises, failing which certain rights would terminate within such period, any such operation shall be a "Required Operation".

2. Should fewer than all the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in a Required Operation, any party or parties desiring to participate shall have the right to do so in the manner provided elsewhere herein, at their sole cost, risk and expense.

3. Promptly following the conclusion of a Required Operation, each party not participating in said Required

**O. ASSIGNMENTS**

1. Any Assignments made as a result of forfeiture of interest, or as a result of Article VI. and/or Article XVI.D, E and F shall be free of any overriding royalty interests, net profit interests, burdens on production or any other burdens or encumbrances.

2. Subject to the provisions of Article VIII D., any party may sell or assign all or any portion of its interest in the Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production within the Contract Area covered by this agreement to one or more third parties without the consent of any other party hereto, provided that such sale or assignment shall be made subject to the provisions of this Operating Agreement and the Participation Agreement and the third party assignee or assignees agree to assume allfuture obligations hereunder. Such sale or assignment shall not be binding upon the other parties to this agreement until Operator is furnished with a copy of the legal instrument evidencing such conveyance. Once a party assigns an interest in the Contract Area to one or more third parties and the Operator has been furnished with notice of such assignment as provided for herein, the assigning party shall have no further liability or obligations under this agreement with respect to the interest so assigned except for those outstanding liabilities or obligations due and owing to another party to this agreement for time periods prior to the effective date of the assignment.

3. In addition, the following language shall be added to any assignment or conveyance from any parties:

"This assignment is made subject to, and Assignee agrees to assume its proportionate share of all obligations and liabilities arising under the terms of that certain Operating Agreement dated _____, naming _____as Operator. Assignee expressly assumes responsibility for, and agrees to pay, perform, fulfill and discharge its proportionate share of all claims, costs, expenses, liabilities and obligations accruing or relating to, the ownership, operation, maintenance, exploration, production, or development of the Leases, wells and equipment assigned herein, as to all periods on or after the effective date of this assignment, including, without limitation, all environmental claims. Without limiting the generality of any of the foregoing, Assignee accepts responsibility for and agrees to pay its proportionate share of all costs and expenses associated with plugging and abandonment of the wells assigned herein, together with surface restoration required under applicable law, the Leases or any other contracts assigned hereunder (the obligations and liabilities described herein are referred to as the Assumed Obligations.

ASSIGNEE SHALL DEFEND, INDEMNIFY, RELEASE AND HOLD HARMLESS ASSIGNOR, ITS OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS ("ASSIGNOR INDEMNIFIED PARTIES") AGAINST ALL LOSSES, DAMAGES, CLAIMS, DEMANDS, SUITS, COSTS, EXPENSES, LIABILITIES AND SANCTIONS OF EVERY KIND AND CHARACTER, INCLUDING WITHOUT LIMITATION REASONABLE ATTORNEYS' FEES, COURT COSTS AND COSTS OF INVESTIGATION, WHICH ARISING OUT OF OR IN ANY WAY CONNECTED WITH THE ASSUMED OBLIGATIONS DESCRIBED HEREIN."

**P. RESERVE ACCOUNT FOR PLUGGING OPERATIONS**

In order to have sufficient funds on hand to meet plugging obligations, the Operator may charge the joint account, over the life of any well(s) on the Contract Area, for estimated costs to plug and abandon said wells (including the costs to cleanup the location and restore the surface are of lease used in oil and gas operations) (referred to herein as "Amortized P&A Charges"). These Amortized P&A Charges may not exceed twenty thousand dollars ($20,000.00) per well. The intent of this covenant is to allow Operator, in the latter stages of the economic life of a well and/or lease, to have available funds on account to conduct P&A operations in accordance with actual Railroad Commission (or environmental agency) regulations and lease requirements. Each party shall pay its proportionate share of the costs of plugging and abandonment above the Amortized P&A Charges.

**Q. ADDITIONAL SECURITY PROVISIONS**

1. SECURITY INTEREST

The lien and security interest granted by each Non-Operators and by Operator to the Non-Operator under Article VII.B shall extend not only to such Party's rights, title and interests in the Contract Area(s) (which for greater certainty shall include all of each Party's leasehold interest and leasehold estate in the Contract Area(s)), the oil and/or gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights, extracted oil and gas and said equipment or which are otherwise owned or held by any such party in the Contract Area(s). Further, the lien and security interest of said Party shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII.B as being subject to said lien and security interest.

2. LIEN ON UNEXTRACTED HYDROCARBONS

In addition to the liens and security interests as provided in Article VII.B., each party to this Agreement, to secure payment of its share of expenses incurred under this Operating Agreement, grants to the other party a lien on all of its right, title and interest now owned or hereafter acquired in the Contract Area including, but not limited to, the oil and gas leases, mineral estates and other mineral interests subject to this Operator Agreement and any properties now or hereafter pooled or unitized with any of the properties affected by such mineral interests; and all unsevered and unextracted oil, gas and other hydrocarbons that may be produced, obtained or secured from the lands covered and affected by such mineral interests such lien shall be perfected by rewording in the Real Property Records of the county in which the acreage within the Contract Area exists, Memorandum in the same form as the Exhibit "H" attached hereto.

3. CONTRACTUAL RIGHT OF OFFSET

a. In addition to the rights and remedies afforded to Operator pursuant to the terms of Article VII.D., or at law or in equity, it is understood and agreed that each defaulting party grants to the Operator a contractual right of offset in and to all money, production, proceeds from the sale of production and property of every kind or character of such defaulting party, now or at any time hereunder coming within Operator's custody or control, wheresoever located whether or not subject to the terms of this Agreement or any other agreement between Operator and defaulting party. Operator, may, at its election, at any time and from time

4. RIGHT OF EXECUTORY FORECLOSURE

In addition to all rights and remedies afforded Operator under Article VII.B., in the event any debt owing by the defaulting party to Operator shall exceed any money, proceeds of sale of production, or property of such defaulting party as provided in the contractual right of offset as provided in Paragraph Q.3 above, the Operator may elect to proceed and foreclose the lien of Operator against the interest of any defaulting party in accordance with the laws of the State of Idaho. Non-Operator hereby delegates Operator as its agent and attorney in fact to execute any and all documents reasonably necessary to carry out an executory foreclosure pursuant the laws of the State of Idaho.

R. EQUAL OPPORTUNITY EMPLOYER

All of the Parties are Equal Opportunity Employers. To the extent that this Agreement may be subject to Executive Order 11246, as amended, the equal opportunity provision (41 CFR 60-1) is incorporated herein by reference. To the extent required by applicable Laws and regulations, this Agreement also includes and is subject to the affirmative actions clause concerning disabled veterans of the Vietnam era (41 CFR 60-250) and the affirmative action clauses concerning employment of the handicapped (41 CFR 60-741), which clauses are incorporated herein by reference.

S. AUDIT

Notwithstanding anything to the contrary contained in the Accounting Procedure, upon receipt of any audit report conducted on the Joint Account by Non-Operator, Operator shall respond in writing to such audit report as soon as reasonably possible, but not greater than ~~have~~ sixty (60) days of such receipt.

T. WELL CONTROL INSURANCE

The interest of each party hereto shall be included in Operator's Control of Well Insurance policy and a proportionate part of the cost of such insurance shall be borne by the respective parties unless Operator is notified otherwise in writing and provided a Certificate of Insurance in compliance with Exhibit "D", which is attached hereto, prior to commencement of operations or prior to any operation to be performed on a well in accordance with attached Exhibit "D".

U. TRANSITION OF OPERATOR

Upon the selection of the successor operator, the Operator who has been removed or has resigned shall promptly deliver to the successor operator all original records relating to operations on the contract area, including current accounting information with regard to the status of the joint account, information concerning all invoices not yet paid by the Operator who has resigned or been removed, all logs, maps and all other information concerning operations. Duplicating expenses required by virtue of the change of operator shall be charged to the joint account.

V. HEADINGS

The Article and Paragraph headings used in this Agreement are inserted for convenience only and shall be disregarded in interpreting or construing this Agreement.

W. ADDITIONAL DEFINITIONS

"Horizontal Well" shall mean a well drilled at an angle to the vertical wellbore, so the well runs parallel to the target formation or zone.

X. BINDING

This Agreement will be binding and will inure to the benefit of the Parties, their respective heirs, representatives, successors and assigns.

Y. COUNTERPARTS

This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. A facsimile, telegraphic or any other form of authenticated electronic signature shall be effective in all respects as an original signature. Failure of any party to execute this Operating Agreement shall not render this Operating Agreement ineffective as to and between the other parties executing that executing this Operating Agreement.

OPERATOR

AM IDAHO, LLC

_____

~~F. David Murrell~~
~~Vice President - Land~~

NON-OPERATORS

~~KBC BANK N.V.~~

## EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement by and between AM Idaho, LLC, as Operator, and _____, et al, as Non-Operator, dated effective the ____ day of _____ _____, 2012, covering the _____Prospect, ~~Canyon, Gem,~~ Payette and ~~Washington~~ ~~Counties~~, Idaho; ~~Malheur County, Oregon~~.
County

## EXHIBIT "A" TO BE COMPLETED AT A LATER DATE

## EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement by and between AM Idaho, LLC, as Operator, and _____, et al, as Non-Operator, dated effective the ____ day of _____ _____, 2012, covering the _____Prospect, ~~Canyon, Gem~~, Payette ~~and Washington Counties~~, Idaho; ~~Malheur County, Oregon~~.
County

### Reporting Requirements

On any well drilled within the Contract Area, Operator shall deliver to Non-Operators the following geological information:

### WELL REQUIREMENTS

**PROSPECT:**
**COUNTY & STATE:**

**WELL DATA REQUIRMENTS**

**DAILY REPORTS**

Daily drilling and completion reports by e-mail:

1) _____
2) _____

Or if necessary by fax: _____

**NOTIFICATION OF LOGGING, DRILL STEM TEST, DRILLING COMPLETION AND ABANDONMENT (24 HOUR NOTICE)**

| PERSON TO CONTACT | OFFICE PHONE | CELL PHONE |
|---|---|---|
| _____ | _____ | _____ |
| _____ | _____ | _____ |

**DATA DISTRIBUTION**

**SEND TO:** _____

_____

_____

_____

**GENERAL PROCEDURES**

**_____ (__) Copy/Copies of Each of the Following:**

1. Complete Drilling Program
2. Cement Program
3. Typed Copy of Well History
4. Directional Surveys

**OPEN HOLE EVALUATION DATA (CONT.)**

5. Directional Surveys
6. Case Hole Logs
7. Drill Stem or Wire Line Tests
8. Cement Bond Logs

**CASED HOLE AND COMPLETION DATA**

**_____ (__) Field Prints, _____ (__) Final Prints and _____ (__) Digital Print of Each of the Following:**

1. Detailed Copy of Completion and/or Workover Procedures
2. Perforating, Wellbore and/or Reservoir Evaluation Logs
3. BHP Data

**CONTRACT, ELECTION, REGULATORY AND TITLE DATA**

**SEND TO:** _____

_____

_____

_____

**_____ (__) Copy/Copies of Each of the Following:**

1. Drilling Contract
2. AFE
3. Elections
4. Location Plat
5. All Regulatory Permits, Applications and Forms
6. Monthly Production Reports (P-1's, P-2's etc.)
7. Copy of Weekly or Monthly Gauge Reports

**End of Exhibit "B"**

# EXHIBIT " C "
# ACCOUNTING PROCEDURE
# JOINT OPERATIONS

Attached to and made part of ___that certain Operating Agreement by and between AM Idaho, LLC, as Operator, and _____, et al, as Non-Operator, dated effective the _____ day of _____, 2012, covering the _____ Prospect, ~~Canyon, Gem~~, Payette and ~~Washington Counties, Idaho; Malheur County, Oregon~~. County

## I. GENERAL PROVISIONS

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

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

### 1. DEFINITIONS

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

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

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

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

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

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

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

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

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations
- Responsibility for day-to-day direct oversight of construction operations
- Coordination of job priorities and approval of work procedures
- Responsibility for optimal resource utilization (equipment, Materials, personnel)
- Responsibility for meeting production and field operating expense targets
- Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental part of the supervisor's operating responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 2. STATEMENTS AND BILLINGS

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

## 3. ADVANCES AND PAYMENTS BY THE PARTIES

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

B. Except ~~as provided below~~as otherwise expressly provided in the Agreement or this COPAS, each Party shall pay its proportionate share of all bills in full within ~~fifteen (15)~~thirty (30) days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the Operator at the time payment is made, to the extent such reduction is caused by:

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

## 4. ADJUSTMENTS

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

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

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

## 5. EXPENDITURE AUDITS

A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the

those Non-Operators approving such audit.

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

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

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

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

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

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

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

~~If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section I.5.B or I.5.C, any unresolved exceptions that~~

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

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

B. AMENDMENTS

If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by an affirmative vote of _____Two_____ (___2___) or more Parties, one of which is the Operator, having a combined working interest of at least _____Sixty_____ percent (_60.0_%), which approval shall be binding on all Parties, provided, however, approval of at least one (1) Non-Operator shall be required.

C. AFFILIATES

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

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

## II. DIRECT CHARGES

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

### 1. RENTALS AND ROYALTIES

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

### 2. LABOR

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

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

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

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

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

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

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

Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid

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

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

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

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

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

## 3. MATERIAL

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

## 4. TRANSPORTATION

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

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

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

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

## 5. SERVICES

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

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

equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

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

## 7. AFFILIATES

A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed to such individual project do not exceed $ 10,000.00 If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the charges exceed $ 25,000.00 in a given calendar year.

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

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

## 8. DAMAGES AND LOSSES TO JOINT PROPERTY

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

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

## 9. LEGAL EXPENSE

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

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

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

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

## 11. INSURANCE

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

## 12. COMMUNICATIONS

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

## 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

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

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

## 14. ABANDONMENT AND RECLAMATION

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

## 15. OTHER EXPENDITURES

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations. Charges made under this Section II.15 shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

# III. OVERHEAD

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

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

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

## 1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

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

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

A. TECHNICAL SERVICES

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

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

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

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

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

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

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

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

B. OVERHEAD—FIXED RATE BASIS

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

Drilling Well Rate per month $ **7,000.00 (prorated for less than a full month **of drilling activity**) **per unit of forty (40) acres or less.**

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

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

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

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

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

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

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

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

~~C. OVERHEAD—PERCENTAGE BASIS~~

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

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

~~(b) Operating Rate _____ percent (_____%) of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1 (*Rentals and Royalties*) and II.9 (*Legal Expense*); all Material salvage credits; the value of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that are levied, assessed, and paid upon the mineral interest in and to the Joint Property.~~

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

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

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

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

Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, or in the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating facilities.

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

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

(1) __**5.0**__% of total costs if such costs are less than $100,000; plus

(2) __**3.0**__% of total costs in excess of $100,000 but less than $1,000,000; plus

(3) __**2.0**__% of total costs in excess of $1,000,000.

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

(1) __**5.0**__% of total costs if such costs are less than $100,000; plus

(2) __**3.0**__% of total costs in excess of $100,000 but less than $1,000,000; plus

(3) __**2.0**__% of total costs in excess of $1,000,000.

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

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

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

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

### 3. AMENDMENT OF OVERHEAD RATES

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

## IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

### 1. DIRECT PURCHASES

Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to

## 2. TRANSFERS

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

### A. PRICING

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

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

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

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

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

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

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

### B. FREIGHT

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

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

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

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

(4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated from the

D. CONDITION

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

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

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

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

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

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

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

(4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for items with different specifications, is considered Condition "D" Material. Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing, tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A (*General Matters*).

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

E. OTHER PRICING PROVISIONS

(1) Preparation Costs

Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of

## 3. DISPOSITION OF SURPLUS

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

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

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

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

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

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

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

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

## 4. SPECIAL PRICING PROVISIONS

### A. PREMIUM PRICING

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

### B. SHOP-MADE ITEMS

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

### C. MILL REJECTS

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

## 1. DIRECTED INVENTORIES

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

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

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

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

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

## 2. NON-DIRECTED INVENTORIES

A. OPERATOR INVENTORIES

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

B. NON-OPERATOR INVENTORIES

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

C. SPECIAL INVENTORIES

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

# VI. OTHER PROVISIONS

**Notwithstanding anything herein to the contrary, Operator shall charge direct to the Joint Account all costs for third party or consulting services, materials for land, legal, and accounting services, including, without limitation, title research, lease acquisitions and title opinions.**

## EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement by and between AM Idaho, LLC, as Operator, and _____, et al, as Non-Operator, dated effective the _____ day of _____, ~~2012~~, covering the _____Prospect, ~~Canyon, Gem,~~ Payette and ~~Washington Counties,~~ Idaho; ~~Malheur County, Oregon~~. County

## INSURANCE EXHIBIT

The Operator, during the term of this Agreement, shall carry insurance for the benefit and at the expense of the parties hereto as follows unless notified in writing by Non-Operator(s):

(A) Worker's Compensation Insurance as contemplated and required by the Laws of the state in which operations will be conducted.

(B) Employer's Liability Insurance with a minimum limit of $1,000,000.00.

(C) Commercial Automobile Liability Insurance with a combined single limit of not less than $1,000,000.00 per occurrence.

(D) Commercial General Liability Insurance with an occurrence limit of $1,000,000.00.

(E) Excess Liability Coverage with an each occurrence and general aggregate limit of not less than $5,000,000.00.

(F) Control of Well Insurance with the following limits for wells to be drilled;
$10MM for wells with completed well cost AFE's < $4MM
$20MM for wells with completed well cost AFE's $4MM to $7.5MM
$30MM for wells with completed well cost AFE's $7.5MM to $10MM
$40MM for wells with completed well cost AFE's > $10MM
Operator's control of well insurance shall cover the cost of controlling a well out of control, the expenses involved in re-drilling or restoring the well, and certain other related costs, including liability for seepage and pollution and liability for items in Operator's care, custody, and control. ($5,000,000 CCC Limit)

(G) Oil Lease Property coverage as determined by Operator.

The Operator shall charge the joint account for insurance premiums, and in event of a claim, the proportionate share of the deductible/retention. Losses not covered by such insurance *shall* be charged to the joint account proportionately. The Operator is solely responsible for selection of coverages but is not responsible for solvency of any Insurer(s).

All policies mentioned above, with the exception of workers compensation, shall be endorsed to provide that the underwriters and insurance companies waive their right of subrogation against the Non-Operator, its affiliates, subsidiaries and employees. In addition, the Non-Operating party shall be named as an additional insured under the policies listed.

In the event a Non-Operating party elects not to be covered for well control insurance, the Non-Operator shall notify operator prior to the spud date of a well and provide certificate of insurance with equal or higher limits of coverage. By such refusal of coverage the Non-Operating party agrees to be responsible for his proportionate share of such loss and shall be deemed to have indemnified the Operator of any such loss that would have been covered under the Operator's coverage, regardless of the degree or type of negligence, either sole, joint, concurrent, or gross, anything in this agreement to the contrary notwithstanding.

**End of Exhibit "D"**

**Exhibit "E"**

Attached to and made a part of that certain Operating Agreement by and between AM Idaho, LLC, as Operator, and _____ _____, et al, as Non-Operator, dated effective the _____ day of _____, ~~2012~~, covering the _____Prospect, ~~Canyon, Gem~~, Payette and ~~Washington Counties~~, Idaho; ~~Malheur County, Oregon~~.
**County**

Gas Balancing Agreement

NOTICE - Monthly Cash Balancing Form

## I. DEFINITIONS

The following definitions shall apply to this Agreement:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Winter Period" shall mean the month(s) of October - December in one calendar year and the month(s) of January - March in the succeeding calendar year.

## II. BALANCING AREA

If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in MMBTU's.

## III. RIGHT OF PARTIES TO TAKE GAS

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 In the event that a Party fails to make arrangements to take its Full Share of Current Production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall market such Party's proportionate share of gas produced from the contract Area on terms no less advantageous than those on which Operator markets to any non-affiliate its own proportionate share of gas produced from the Contract Area. 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 (1) 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. Notwithstanding any provision herein, Operator will not make any sales under this Section 3.5 unless it has first notified a Party with seven (7) days written notice that a sale hereunder is contemplated.

## IV. CASH BALANCING

Effective the first day of any calendar month, following the receipt of the Statement of Gas Balances as provided in Article V below, each Overproduced Party shall make payment to the Operator so as to eliminate its overproduction as provided in Article VII below.

## V. 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 sixty (60) 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 timely, 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.

## VI. 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 The Operator shall pay or cause to be paid all Royalty due with respect to Royalty Owners to whom it is accountable based on the volume of Gas actually taken for the respective Parties' 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 VI, 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.

## VII. CASH SETTLEMENTS

7.1 Effective the first day of any calendar month following the receipt of the Statement of Gas Balances as provided in Article V below, any Overproduced Party shall forward, via wire transfer, the cash amount of the value of its overproduction to the Operator. The Operator shall, within fifteen (15) days thereafter, pay to the respective Underproduced Party(ies) its (their) proportionate share of the value of the overproduction.

7.2 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.

7.3 The values used for calculating the cash settlement under Section 7.2 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.

7.4 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash

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.

## VIII. TESTING

Notwithstanding any provision of this Agreement to the contrary, any Party who is selling its gas production independently of Operator 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 ten (10) days' prior written notice to the Operator and shall last no longer than seventy-two (72) hours.

## IX. 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 Joint 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.

## X. 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.

## XI. 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 V or VII hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding BTU-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section VII 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 XI shall be in addition to those provided for in Section 5.2 of this Agreement.

## XII. 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 the Joint Operating Agreement, the provisions of this Agreement shall govern.

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

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

12.4 This Agreement shall remain in full force and effect for as long as the Joint 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 Joint 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 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.

12.7 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any 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 Notwithstanding anything in this Agreement (including but not limited to the provisions of Section 13.1 hereof) or in the Joint 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 twenty (20) 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 XIII, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section XIII shall be paid by the Overproduced Party (i) in accordance with Article VII or (ii) at the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area, whichever is the earlier, and shall bear interest at the rate set forth in Section 7.5 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 XIII shall not be applicable in the event any Party mortgages its interest or disposes of its interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

**End of Exhibit "E"**

# EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement by and between AM Idaho, LLC, as Operator, and _____, et al, as Non-Operator, dated effective the _____ day of _____, ~~2012~~, covering the _____Prospect, ~~Canyon, Gem,~~ Payette ~~and Washington Counties,~~ Idaho; ~~Malheur County, Oregon~~.
County

## MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

**THE STATE OF** _____ §
§
**COUNTY OF** _____ §

THIS AGREEMENT is made and entered into by and between AM Idaho, LLC, (hereinafter referred to as "OPERATOR"), and the undersigned parties (hereinafter referred to as "NON-OPERATORS").

WHEREAS, the parties to this Memorandum of Operating Agreement and Financing Statement (hereinafter referred to as "Agreement") are owners of certain Oil and Gas Leases and/or Oil and Gas Interests covering the _____Prospect Area described in Exhibit "A" which is attached to and made a part the Operating Agreement (said Land(s), Lease(s) and Interest(s) are hereinafter referred to as the "Contract Area"), and in any instance in which the Lease(s) or Interest(s) of a party are not of record, the record owner and the party hereto that owns the interest or rights therein are reflected on said Exhibit "A"; AND,

WHEREAS, the parties hereto have subjected their interests in the Contract Area to an Operating Agreement dated effective the ____ day of _____, ~~2012~~ governing operations on and in the Contract Area, by and between OPERATOR and NON-OPERATORS, (such Operating Agreement hereinafter referred to as the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for oil and gas; AND,

WHEREAS, the parties hereto have executed this Agreement for the purpose of imparting notice to all persons of the rights and obligations of the parties under the Operating Agreement and for the further purpose of perfecting those rights capable of perfection;

NOW, THEREFORE, in consideration of the mutual rights, covenants and obligations of the parties hereto, it is hereby agreed between the parties as follows:

1. This Agreement is a supplemental to the Operating Agreement, which, for all purposes reference is hereby made and the terms and provisions contained therein are incorporated herewith in their entirety, and all terms used herein shall have the same meaning ascribed to them in said Operating Agreement.

2. The parties hereby agree that:

   A. The Oil and Gas Lease(s) and/or Oil and Gas Interest(s) of the parties comprised by the Contract Area shall be subject to and burdened with the terms and provisions of this Agreement and the Operating Agreement, and the parties do hereby commit such Lease)s) and Interest(s) to the performance thereof.

   B. The exploration and development of the Contract Area for oil and gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this Agreement.

   C. All costs and liabilities incurred in operations under this Agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.

   D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit "A", all production of oil and gas from the Contract Area shall be owned by

party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.

G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers. This Agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns.

H. The parties shall have the right to acquire an interest in any renewal, extension or replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.

I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, failure to participate in acquisitions under the Area of Mutual Interest or the participation in a greater interest in such acquisitions, each party's right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.

J. Each party's interest under this Agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.

3. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.

4. The parties hereby grant reciprocal liens and security interests to each other as follows:

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

B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in the Oil and Gas Leases and/or Oil and Gas Interests covered by this Agreement and the Operating Agreement by, through or under such party. All parties acquiring an interest in any Oil and Gas Leases and/or Oil and Gas Interests covered by this Agreement and the Operating Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have been taken subject to the lien and security interest granted by the Operating Agreement and this instrument as to all obligations attributable to such interest under this

defaulting party's share of oil and gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.

D. If any party fails to pay its share of expenses within one hundred twenty (120) days after rendition of a statement therefor by OPERATOR, OPERATOR shall pay the unpaid amount. The amount paid by OPERATOR shall be secured by the liens and security rights described in this paragraph 3. and in Article VII.B. of the Operating Agreement, and OPERATOR may pursue any remedy available under the Operating Agreement or otherwise.

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

F. The lien and security interest granted by this paragraph 3. supplements identical rights granted under the Operating Agreement.

G. To the extent permitted by applicable law, NON-OPERATORS agree that OPERATOR may invoke or utilize the mechanics' or materialman's lien law of the state in which the Contract Area is situated in order to secure the payment to OPERATOR of any sum due under this Agreement and the Operating Agreement for services performed or materials supplied by OPERATOR.

H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Memorandum of Operating Agreement and Financing Statement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the above described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial Code, or other state laws.

5. This Agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this Agreement and the Operating Agreement and the satisfaction of all obligations thereunder, OPERATOR is authorized to file of record in all necessary recording offices a notice of termination, and upon the request of OPERATOR, each party hereto agrees to execute such a notice of termination as to OPERATOR'S interest, if OPERATOR has complied with all of its financial obligations.

6. This Agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns. Every sale, encumbrance, transfer or other disposition made by any party of any interest in the Oil and Gas Leases and/or Oil and Gas Interests subject hereto shall be made expressly subject to this Agreement and the Operating Agreement and without prejudice to the rights of the other parties. The assignee of an ownership interest in any Oil and Gas Lease and/or Oil and Gas Interests shall be deemed a party to this Agreement and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party under this Agreement or the Operating Agreement with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under this Agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.

IN WITNESS WHEREOF, this Agreement shall be effective as of the _____ day of _____, 2012.

**OPERATOR:**

AM IDAHO, LLC
By: ~~Alta Mesa GP, LLC~~
Its: ~~General Partner~~

_____
~~F. David Murrell, VP Land~~

**NON-OPERATORS:**

_____

_____

STATE OF TEXAS §
§
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 20____, by ~~F. David Murrell, Vice President of Land of~~ **Alta Mesa GP, LLC, General Partner of AM Idaho, LLC**, ~~a limited partnership, on behalf of said partnership.~~
**a Texas limited liability company.**

_____
Notary Public in and for the
State of Texas

STATE OF _____ §
§
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 20____, by ____

# OIL AND GAS LEASE

**(PAID-UP)**

This Oil and Gas Lease ("**Lease**") is made effective this _____ day of _____, 2019, between _____, whose address is _____ ("**Lessor**", whether one or more) and **AM Idaho, LLC, 15021 Katy Freeway, Suite 400, Houston, Texas 77094** ("**Lessee**").

WITNESSETH: That Lessor, for and in consideration of Ten Dollars ($10.00) and other good and valuable consideration in hand paid, receipt and sufficiency of which are 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 through a wellbore (but not gravel or other minerals not produced through a wellbore), together with the right of ingress and egress over lands owned by Lessor to construct and maintain pipelines, telephone and electric lines, tanks, towers, ponds, roadways, plants, equipment, and structures thereon to produce, save, market and take care of said oil, gas and other minerals, 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, marketing and taking care of oil, gas and other minerals and the injection of air, gas, water, brine, and other fluids into the subsurface strata, said lands being situated in the County of Payette, State of Idaho, and being described as follows, to-wit:

**SEE EXHIBIT "A" FOR DESCRIPTION OF SAID LANDS AND ADDITIONAL PROVISIONS TO THIS LEASE.**

And containing ____, acres, more or less, the "**Leased Premises**".

In addition to the above described lands, Lessor hereby grants, leases and lets exclusively unto Lessee, to the same extent as if specifically described herein, all lands owned or claimed by Lessor which are adjacent, contiguous to, or form a part of the lands above particularly described, including all oil, gas, and other minerals, and their constituents underlying lakes, rivers, streams, roads, easements and right-of-ways which traverse or any of said lands.

It is agreed that this Lease shall remain in force for a term of three (3) years from date (herein called the "Primary Term") and as long thereafter as oil, gas, or other minerals, or any of them, is produced from said land by Lessee, and as long thereafter as operations, as hereinafter defined, are conducted upon said land with no cessation for more than one hundred twenty (120) consecutive days. Whenever used in this Lease the word "operations" shall mean operations for and any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search of or in an endeavor to obtain production of oil, gas, or other minerals, or production of oil, gas, or other minerals, whether or not in paying quantities. If while this Lease is in force, at, or after the expiration of the Primary Term hereof, it is not being continued in force by reason of the shut-in well provisions hereinafter stated, and Lessee is not conducting operations on said land by reason of (1) any law, order, rule, or regulation (whether or not subsequently determined to be invalid), or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of Lessee, the Primary Term hereof shall be extended until the first anniversary date hereof occurring one hundred twenty (120) or more days following the removal of such delaying cause, and this Lease may be extended thereafter by operations as if such delay had not occurred.

In consideration of the premises the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor free of cost, in the pipeline to which it may connect its wells, the one-eighth (1/8) part of all oil (including but not limited to condensate and distillate) produced and saved from the Leased Premises, or, at Lessor's option, a royalty in the manner provided in this Lease.

2nd. To pay Lessor for gas of whatsoever nature or kind (with all of its constituents) produced and sold or used off the Leased Premises, or used in the manufacture of products therefrom, one-eighth (1/8) of the gross proceeds received for the gas sold, used off the Leased Premises, or in the manufacture of products therefrom, but in no event more than one-eighth (1/8) of the actual amount received by the Lessee at the mouth of the well, said payments to be made monthly as hereinafter provided. During any period after expiration of the Primary Term hereof when gas is not being so sold or used and the well or wells are shut-in and there is no current production of oil or operations on said Leased Premises sufficient to keep this Lease in force, Lessee shall pay or tender a royalty of One Dollar ($1.00) per year per net mineral acre retained hereunder, such payment, or tender to be made, on or before the anniversary date of this Lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on the anniversary date of this Lease during the period such well is shut-in, to the royalty owners. When such payment or tender is made it will be considered that gas is being produced within the meaning of the entire Lease.

3rd. To pay Lessor for gas produced from any oil well and used off the Leased Premises, or for the manufacture of casing-head gasoline or dry commercial gas, one-eighth (1/8) of the gross proceeds, at the mouth of the well, received by the Lessee for the gas during the time such gas shall be used, said payments to be made monthly as hereinafter provided.

If the Lessee shall commence to drill a well or commence reworking operations on a existing well within the term of this Lease or any extension thereof, or on acreage pooled therewith, the Lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this Lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

Lessee is hereby granted the right at any time and from time to time to unitize the Leased Premises or any portion or portions thereof, as to all strata or any stratum or strata, with any other lands as to all strata or any stratum or strata, for the production primarily of oil or primarily of gas with or without distillate. However, no unit for the production primarily of oil shall embrace more than 160 acres, or for the production primarily of gas with or without distillate more than 640 acres; provided that if any governmental regulation shall prescribe a spacing pattern for the development of the field 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 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 used in such allocation of allowable.

Operations upon and production from the units shall be treated as if such operations were upon or such production were from the Leased Premises whether or not the wells are located thereon. The entire acreage within a unit shall be treated for all purposes as if it were covered by and included in this Lease except that the royalty on production from the unit shall be calculated as below provided, and except that in calculating the amount of any shut-in gas royalties, only that part of the acreage

originally leased and then embraced by this Lease shall be counted. In respect to production from the unit, Lessee shall pay Lessor, in lieu of other royalties thereon, only such proportion of the royalties stipulated herein as the amount of Lessor's acreage placed in the unit, or Lessor's royalty interest therein, on an acreage basis bears to the total acreage in the unit. Lessee is granted the right to execute all necessary ratifications of any unit agreement and/or unit operating agreements as may be necessary to obtain the approval of the Governmental Regulatory Body for the creation of a field-wide unit without regard to the size of such field-wide unit.

If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid to the Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells of Lessor.

When requested by the Lessor, Lessee shall bury its pipelines below plow depth.

No well shall be drilled nearer than 300 feet to the house or barn now on said premises, nor shall any tanks or gas processing facilities be placed nearer than 300 feet from said house or any water well on said premises, without the written consent of the Lessor.

Lessee shall pay for all damages caused by its operations to growing crops, livestock and dairy operations, surface water, and ground water on said land.

Lessor recognizes that Lessee has the right to use as much of the surface of the Leased Premises as a reasonably prudent operator would use to accomplish the purposes of this Lease.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. However, no change or division in ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land or royalties shall be binding on the Lessee until after the Lessee has been furnished with a written transfer or assignment or a true copy thereof. In case Lessee assigns this Lease, in whole or in part, Lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment. Lessee shall provide a copy of any such recorded assignment to Lessor upon Lessor's request.

All express or implied covenants of this Lease shall be subject to all Federal, State and Municipal Laws, Executive Orders, Rules and Regulations, and this Lease shall not be terminated in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or such failure is the result of any such Law, Order, Rule or Regulation.

This Lease shall be effective as to each Lessor on execution hereof as to his or her interest and shall be binding on those signing, notwithstanding some of the Lessors above named may not join in the execution hereof. The word "Lessor" as used in this Lease means the party or parties who execute this Lease as Lessor, although not named above.

Lessee may at any time and from time to time surrender this Lease as to any part or parts of the Leased Premises by delivering or mailing a release thereof to Lessor, or by placing a release of record in the proper County.

Lessee shall have the right at any time to redeem for Lessor by payment and mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof.

This Lease shall never be terminated, forfeited, or canceled for Lessee's failure to perform, in whole or in part, any of the covenants, conditions, obligations and requirements set forth in this Lease, until Lessee, after written notice by Lessor, has been given a reasonable period of time within which to comply with the covenant, condition, obligation, or requirement.

Lessee is expressly granted the right to conduct geophysical exploration by means of seismograph, vibroseis or similar techniques. However, if Lessee conducts such geophysical exploration or operations on the lands covered by this Lease, all shot holes shall be kept a sufficient distance away from Lessor's water wells so as not to cause any damage to the water wells. Lessee shall promptly plug all shot holes with concrete plugs or other approved methods set below plow depth, fill the holes with dirt on top of the plugs, and restore the surface of the Leased Premises to substantially the same condition it was in prior to the commencement of the geophysical operations.

**IN WITNESS WHEREOF, we sign the day and year first above written,**

**(X)** _____

UNIFORM ACKNOWLEDGMENT - INDIVIDUAL

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, _____ by

_____.

_____

My Commission Expires: _____ Notary Public, State of _____

Name of Notary Printed _____

UNIFORM ACKNOWLEDGMENT - CORPORATE

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, _____ by

_____as _____

of _____ an _____

corporation, on behalf of the corporation.

_____

My Commission Expires: _____ Notary Public, State of _____

Name of Notary Printed _____

UNIFORM ACKNOWLEDGMENT - OTHER

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, _____ by

_____as _____

of _____ an _____

on behalf of the Trust.

_____

My Commission Expires: _____ Notary Public, State of _____

Name of Notary Printed _____

# EXHIBIT "A"

NOTWITHSTANDING ANYTHING CONTAINED IN THE FOREGOING OIL AND GAS LEASE TO THE CONTRARY, THE FOLLOWING PROVISIONS SHALL APPLY AS AN EXHIBIT TO THE FOREGOING OIL AND GAS LEASE, AND SHALL BE IN FORCE AND EFFECT AS A PART OF SAID LEASE.

**Township North, Range West, Boise Meridian**
**Section :**

**containing ___ acres, more or less**

1. SURFACE USE: Lessee shall have the right to use only so much of the surface of the Leased Premises as is reasonable necessary for the full exercise of the purpose of this Lease; provided, that if the Leased Premises are 3.0 acres or smaller in size, Lessee shall not engage in drilling operations on the surface of the Leased Premises. Lessee shall take reasonable precautions to minimize adverse impact to Lessor's farming, dairy and ranching operations on the Leased Premises. Lessee shall advise the owner of the surface of the Leased Premises prior to commencing construction regarding the location of any well sites, roads, fences, pipelines or utilities, or installation of any production equipment, tank batteries or produced water disposal equipment. Lessee shall pay the surface owner for reasonable damages to growing crops, grass, buildings, livestock, feed, fences and other improvements and personal property caused by Lessee's operations.

2. PROTECTION AND USE OF WATER: Lessee shall follow generally accepted industry practices designed to protect fresh water strata from contamination and protect the surface from exposure to produced water and other contaminants. Lessee shall not use water from Lessor's irrigation and domestic wells or from the aquifers supplying said wells without Lessor's written consent. Produced water may be used for any purpose allowed by applicable laws and regulations.

3. LIABILITY INSURANCE: If Lessee or its agents conduct any operations on the Leased Premises then Lessee shall maintain, at Lessee's expense, for the duration of Lessee's operations on the Leased Premises, public liability insurance with adequate coverage for personal injury and damage to real property with respect to Lessee's operations. If requested by Lessor, Lessee shall deliver appropriate evidence to Lessor, prior to entrance on the Leased Premises that such insurance is in force.

4. NOTIFICATION OF BREACH: In the event Lessor considers that Lessee has failed to comply with any obligation hereunder, express or implied, Lessor shall notify Lessee in writing specifying in what respect Lessor claims Lessee has breached this Lease. Lessee shall then have **sixty (60) days** after receipt of said notice within which to meet or commence to meet all or any part of the breach(es) alleged by Lessor, or attempt to prove that the alleged breach(es) do(es) not exist. The service of said notice shall be precedent to the bringing of any action by Lessor on said Lease for any cause, and no such action shall be brought until the lapse of **sixty (60) days** after service of such notice on Lessee. Neither the service of said notice nor the doing of any acts by Lessee aimed to meet all or any of the alleged breach(es) shall be deemed an admission or presumption that Lessee has failed to perform all its obligations hereunder. This Lease shall not be forfeited or cancelled for a failure to perform in whole or in part any of its implied covenants, conditions, or stipulations until a judicial determination is made that such failure exists.

5. REGULATIONS: All operations conducted under this Lease, including permitting, drilling, production, pooling and unitization, plugging and abandonment of wells, and surface reclamation, shall be done pursuant to and in accordance with applicable federal, state and local rules and regulations.

6. Lessee is hereby given the option to extend the Primary Term of this Lease for an additional **three** (3) years from the expiration date of the Primary Term hereof. This option may be exercised by Lessee for all or part of the acreage covered by this Lease that Lessee elects to extend and this option exercised at any time during the original Primary Term by paying the sum of **Fifty** and **no/100 Dollars** ($ **50.00**) per acre to Lessor. This payment shall be based upon the number of net mineral acres that Lessee elects to extend then covered by this Lease and not at such time being maintained by other provisions hereof. This payment may be made by check or draft of Lessee mailed or delivered to Lessor at any time during the original Primary Term hereof. If, at the time this payment is made, various parties are entitled to specific amounts according to Lessee's records; this payment may be divided between said parties and paid in the same proportion. Should this option be exercised as herein provided, it shall be considered for all purposes as though this Lease originally provided for a Primary Term of **Six** (6) years.

7. Lessor does hereby fully waive, release, acquit, dismiss, surrender, cancel and forever discharge any and all claims heretofore or hereafter arising against Lessee from, or in any manner connected to, (i) prior oil and gas operations of any nature on the Leased Premises, (ii) any preexisting conditions and/or (iii) any Lessor, invitee and/or tenant on the Leased Premises taking or using gas from any well(s) not drilled by Lessee.

8. Royalty Payments: Lessee shall submit to Lessor royalty payments in full by the last day of the calendar month following Lessee's receipt of payment for a month of production for the oil or gas. The check stub for each payment shall identify the amount of oil and/or gas produced and saved during that month, the price received therefore, and Lessor's royalty interest and applicable severance charges. If Lessee fails to timely pay any royalty when due, Lessee shall pay to Lessor in addition to the royalty one percent (1.0%) times the unpaid royalty for each calendar month or fraction thereof. Lessee shall allow reasonable access to Lessor to Lessee's records relevant to a determination of the amount of any royalty to be paid pursuant to this Lease. In no event shall royalties to be paid hereunder be more than one-eighth (1/8) of the actual amount received by Lessee.

9. Liability: Lessee shall indemnify, defend and hold Lessor harmless from any and all liability, charge, expense, fine, claim, suit or loss, including but not limited to losses related to crop, livestock and dairy production, and including attorney's fees and costs on appeal, caused by or resulting from any negligent or otherwise

wrongful act or omission of Lessee, its assigns, sublessees, agents, operators, employees, or contractors. Lessee shall pay when due, all taxes lawfully assessed and levied under Idaho law upon Lessee's interest in the Leased Premises, including the leased deposits and oil or gas production.

11. Sale or Lease: Any sale or sublease of all or any part of the Leased Premises during the term of this Lease shall be subject to the terms and conditions of this Lease.

12. Lessee Practices: Lessee shall at all times conduct all operations and other actions relative to this Lease as a reasonable prudent operator, and shall conform to the best practices and engineering principles currently in use in the oil and gas industry for the area in which the Leased Premises are located and as contemporaneously as they are improved from time to time. Lessee shall at all times use all reasonable precautions necessary to prevent waste of oil and gas.

# FALLON 1-10 UNIT
# SW 1/4 Section 10
# 8N 5W B.M.

| | |
|---|---|
| Acres in Unit | 160.0000 |
| Percentage Leased | 65.1375% |

| Number | Tax Parcel Number | Owner | Address | Acres Open | Remarks |
|---|---|---|---|---|---|
| | | | | 55.7800 | |
| 1 | F00000105742 | City of Fruitland | Attn: Rick Watkins - City Clerk<br>P.O. Box 324, Fruitland, ID 83619 | 23.15 | 8-17-16. Delivered lease and offer letter to Rick Watkins, City Clerk. Planning to attend upcoming City of Fruitland Council Meeting and formally present lease and answer questions. MWC.<br><br>9-12-16. Presented lease and offer letter to City of Fruitland City Council Meeting. Answered a few questions about potential location and future operations by AM Idaho, LLC in the future. City Council will discuss with city engineers and get back to us. MWC<br><br>9-20-16. Met with Rick Watkins and showed him a map of parcels owned by City of Fruitland we are interested in leasing. He said he would follow up with me if he heard anything. MWC<br><br>9-29-16. Mailed lease packet.<br><br>10-14-16. Met with Rick Watkins and he gave me the minutes of City of Fruitland Council Meeting that took place on 9-26-16. The Council voted not to approve our lease. Refused. MWC<br><br>3-7-2019 Mailed Lease Package - Certified Mail Receipt #7018-2290-0001-1721-6144<br><br>3-12-2019 11:32 AM - spoke with Rick Watkins, city clerk, introduced my self, I asked if he/city was going to take the same stance as before and he stated he really didn't know, but that the topic of leasing their minerals is on the agenda for the next city council meeting which is March 25. I told him I would check back after that date and see what the status was.<br><br>3-19-2019 We received the Certified Mail signature card back signed by Rick S. Watkins on 3-11-2019.<br><br>3-25-19. Meeting held and we received a letter, dated 3-26-19, stating Council voted to respectfully decline leasing property. |

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| 2 | F00000105561 | City of Fruitland | Attn: Rick Watkins - City Clerk<br>P.O. Box 324, Fruitland, ID 83619 | 14.10 | 8-17-16. Delivered lease and offer letter to Rick Watkins, City Clerk. Planning to attend upcoming City of Fruitland Council Meeting and formally present lease and answer questions. MWC.<br><br>9-12-16. Presented lease and offer letter to City of Fruitland City Council Meeting. Answered a few questions about potential location and future operations by AM Idaho, LLC in the future. City Council will discuss with city engineers and get back to us. MWC<br><br>9-20-16. Met with Rick Watkins and showed him a map of parcels owned by City of Fruitland we are interested in leasing. He said he would follow up with me if he heard anything. MWC<br><br>9-29-16. Mailed lease packet.<br><br>10-14-16. Met with Rick Watkins and he gave me the minutes of City of Fruitland Council Meeting that took place on 9-26-16. The Council voted not to approve our lease. Refused. MWC<br><br>3-7-2019 Mailed Lease Package - Certified Mail Receipt #7018-2290-0001-1721-6144<br><br>3-12-2019 11:32 AM - spoke with Rick Watkins, city clerk, introduced my self, I asked if he/city was going to take the same stance as before and he stated he really didn't know, but that the topic of leasing their minerals is on the agenda for the next city council meeting which is March 25. I told him I would check back after that date and see what the status was.<br><br>3-19-2019 We received the Certified Mail signature card back signed by Rick S. Watkins on 3-11-2019.<br><br>3-25-19. Meeting held and we received a letter, dated 3-26-19, stating Council voted to respectfully decline leasing property. |

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| 3 | F00000105601 | City of Fruitland | Attn: Rick Watkins - City Clerk<br>P.O. Box 324, Fruitland, ID 83619 | 5.89 | 8-17-16. Delivered lease and offer letter to Rick Watkins, City Clerk. Planning to attend upcoming City of Fruitland Council Meeting and formally present lease and answer questions. MWC.<br><br>9-12-16. Presented lease and offer letter to City of Fruitland City Council Meeting. Answered a few questions about potential location and future operations by AM Idaho, LLC in the future. City Council will discuss with city engineers and get back to us. MWC<br><br>9-20-16. Met with Rick Watkins and showed him a map of parcels owned by City of Fruitland we are interested in leasing. He said he would follow up with me if he heard anything. MWC<br><br>9-29-16. Mailed lease packet.<br><br>10-14-16. Met with Rick Watkins and he gave me the minutes of City of Fruitland Council Meeting that took place on 9-26-16. The Council voted not to approve our lease. Refused. MWC<br><br>3-7-2019 Mailed Lease Package - Certified Mail Receipt #7018-2290-0001-1721-6144<br><br>3-12-2019 11:32 AM - spoke with Rick Watkins, city clerk, introduced my self, I asked if he/city was going to take the same stance as before and he stated he really didn't know, but that the topic of leasing their minerals is on the agenda for the next city council meeting which is March 25. I told him I would check back after that date and see what the status was.<br><br>3-19-2019 We received the Certified Mail signature card back signed by Rick S. Watkins on 3-11-2019.<br><br>3-25-19. Meeting held and we received a letter, dated 3-26-19, stating Council voted to respectfully decline leasing property. |
| 4 | 08N05W106460 | The Jimmie R And Judy A Hicks Family Trust, Jimmie R Hicks and Judy A Hicks, Trustees | 1540 NW 6th Ave., Payette, ID 83661 | 4.50 | 2-25-19. Cell phone didn't even ring and then just hung up on me 7:14 pm<br><br>2-25-19. Reached Mr. Hicks on his home number @ 7:16 pm. He informed me that he was not interested and thanked me for calling.<br><br>2-27-2019 Lease Package mailed - Certified Mail Receipt #7018-2290-0001-1721-5420 BJB<br><br>3-26-2019 Received unclaimed offer package sent by Certified Mail No. 7018-2290-0001-1721-5420. |

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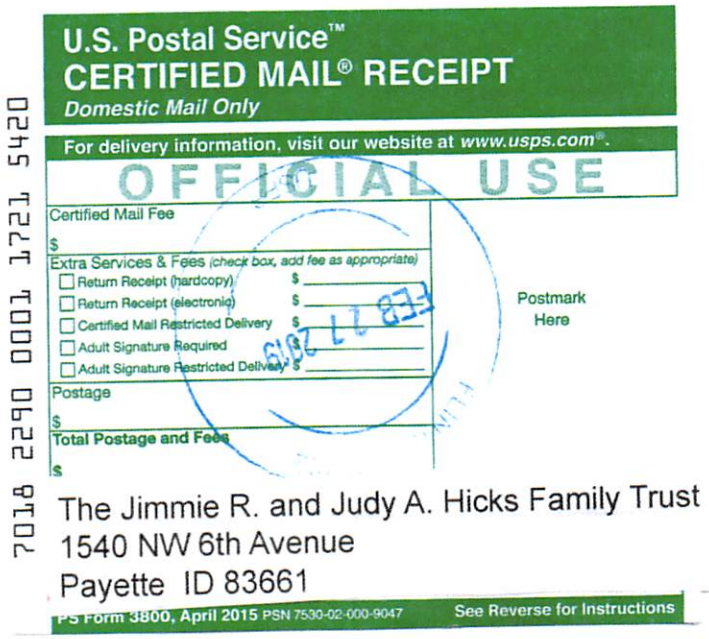
| 5 | 08N05W10RAIL | Anadarko Land Corp | Attn: Dale Tingen<br>1201 Lake Robbins Dr., The Woodlands, TX 77380 | 3.17 | **8-24-16.** Sent intro email to Matthew Kozisek who works in the Land Department at Union Pacific. He called me back after several attempts to reach him and explained that UP conveyed to UP Land Resources Corp everything West of the Mississippi. It is now owned by Anadarko Land Corp. MWC<br>**10-4-16.** Minerals believed to be owned by Anadarko. LM for Jane Ann Byroad 832-636-1000 at Anadarko office. MWC<br>**10-10-16.** LM for Jane Ann Byroad 10-10-16. MWC<br>**10-11-16.** -Mailed lease packet to Jane Ann Byroad, Director of Land and Surface at Anadarko main office address.<br>**10-20-16.** Jane Ann requested that Dale Tingen from Anadarko Land Department call me. We discussed offer letter and he requested I send him an email with info so he could forward to their Colorado office to move things along. I made a note that Dale thought that either Mike Nixon and/or Enrique Nelson handled the railroads in our area from the Denver office. I mentioned that we were in the process of getting things ready for Integration in November and that we were trying to wrap things up as soon as possible.<br>**10-21-16.** I emailed Dale Tingen at Dale.Tingen@Anadarko.com. MWC<br>**11-1-16.** Emailed Dale asking which Colorado address we should send information to. MWC<br>**11-1-16.** Dale responded and said that we should send all future communication to him at main office in Texas (The Woodlands). His number is 832-636-7253. MWC<br>**4-4-19.** Lease offer package sent Certified Mail Receipt #7018-2290-0002-3220-2275. BJB<br>**4-8-19.** Received e-mail from Mark W. Heathcote stating "We unfortunately can not accept this proposal. Thank you for your interest." JC |
| 6 | F00000107090 | Shady River, LLC | 3500 E Coast Hwy Ste 100<br>Corona Del Mar, CA 92625 | 3.06 | 2-26-2019 Left message on voicemail that Stated Eric Wohl. Let him know we would be sending him out a lease packet and to feel free to call me with any questions. 11: 04 am TX time. JC<br><br>2-26-2019 Eric called back and left a message stating he wasn't sure he owned the minerals. Called from 949-677-9990 and also left a second number of 949-585-7673 11:22 am TX time. JC<br><br>2-26-2019 Called and talked to Eric. Explained he did own the minerals and that all he had to do is sign the lease and return it to us. Said that he didn't see why not and would call if he had any questions. 949-585-7673 1:33 pm TX time. JC<br><br>2-27-2019 Lease Package mailed - Certified Mail Receipt #7018-2290-0001-1721-5437. BJB<br><br>3-13-2019 11:23 AM left voicemail @ 949-677-9990. JC<br><br>3-13-2019 11:24 AM left voicemail - voicemail stated that the person was on the phone (949) 585-7673. JC<br><br>4-04-2019 Left a voicemail for Mr. Wohl. Informed him we had found another tract of ).55 acres for him and to please call me back 12:17 pm TX time. JC |

| | | | | | |
|---|---|---|---|---|---|
| 7 | 08N05W106680 | Alan R & Glenda D Grace | 1755 Killebrew Dr., Payette, ID 83661 | 1.58 | 8-10-16. Mailed lease packet.<br><br>9-13-16. Stopped by and saw there was a no trespassing sign at driveway. Will keep driving by to see if I can catch them at home. MWC. No telephone number listed in phone book.<br><br>10-1-16. (Saturday) Drove by and saw there was no one home. Could not knock on door due to Private property/ No Trespassing sign posted. Left business card on fence near entrance. MWC<br><br>10-4-16. Drove by again and tried to see if a car was in driveway. Did not see that there was anyone at home. Did not knock on door due to Private property/ No Trespassing sign posted. MWC<br><br>11-15-16. 1:15 and 2:20. Drove by again and tried to see if a car was in driveway. Saw dark gold colored SUV parked near house. Did not knock on door due to Private property/ No Trespassing sign posted. MWC<br><br>4-4-19. Lease offer package sent Certified Mail Receipt #7018-2290-0001-1721-6199. BJB |
| 8 | 08N05W107040 | Karen Oltman | 8970 Hurd Lane, Payette, ID 83661 | 0.34 | 8-10-16. Mailed lease packet.<br><br>10-1-16. Saturday. Drove by, knocked on door. Apparently no one home. MWC<br><br>10-4-16. Saw her and what appeared to be her husband pull in driveway in the evening and saw her go into house. I pulled in front of house knocked on front door and waited. Knocked again, but no one answered door. No telephone number posted in phonebook. MWC<br><br>11-15-16. Knocked on door and rand doorbell at 1:15 - no answer. Left card between glass door and front door. MWC<br><br>4-4-19. Lease offer package sent Certified Mail Receipt #7018-1830-0001-5708-8799. BJB |



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OFFICIAL USE

Certified Mail Fee
$

Extra Services & Fees (check box, add fee as appropriate)
- Return Receipt (hardcopy) $
- Return Receipt (electronic) $
- Certified Mail Restricted Delivery $
- Adult Signature Required
- Adult Signature Restricted Delivery $

Postage
$

Total Postage and Fees
$

Postmark Here

FEB 27 2019

7018 2290 0001 1721 5420

The Jimmie R. and Judy A. Hicks Family Trust
1540 NW 6th Avenue
Payette ID 83661

PS Form 3800, April 2015 PSN 7530-02-000-9047 See Reverse for Instructions

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FRUITLAND, ID 83619

OFFICIAL USE

Certified Mail Fee $3.50
Extra Services & Fees (check box, add fee as appropriate)
- Return Receipt (hardcopy) $2.80 $0.00
- Return Receipt (electronic) $0.00
- Certified Mail Restricted Delivery $0.00
- Adult Signature Required $0.00
- Adult Signature Restricted Delivery $

Postage $1.30

Total Postage and Fees $7.60

0713 05

Postmark Here

03/07/2019

7018 2290 0001 1721 6144

Sent To: City of Fruitland
Street and Apt. No., or PO Box No.: P.O. Box 324
City, State, ZIP+4®: Fruitland Idaho 83619

PS Form 3800, April 2015 PSN 7530-02-000-9047 See Reverse for Instructions

U.S. Postal Service™
CERTIFIED MAIL® RECEIPT
Domestic Mail Only

For delivery information, visit our website at www.usps.com®.

OFFICIAL USE

Certified Mail Fee
$

Extra Services & Fees (check box, add fee as appropriate)
- Return Receipt (hardcopy) $
- Return Receipt (electronic) $
- Certified Mail Restricted Delivery $
- Adult Signature Required $
- Adult Signature Restricted Delivery $

Postage
$

Total Postage and Fees
$

Postmark Here

FEB 27 2019

FLINT, TX 75762

7018 2290 0001 1721 5437

Shady River LLC
3500 East Coast Hwy #100
Corona Del Mar CA 92625

PS Form 3800, April 2015 PSN 7530-02-000-9047 See Reverse for Instructions

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OFFICIAL USE

Certified Mail Fee
$

Extra Services & Fees (check box, add fee as appropriate)
- Return Receipt (hardcopy) $
- Return Receipt (electronic) $
- Certified Mail Restricted Delivery $
- Adult Signature Required $
- Adult Signature Restricted Delivery $

Postage
$

Total Postage and Fees
$

Postmark Here

SOUTHEAST CROSSING TYLER, TX
APR 04 2019
USPS-75713

7018 2290 0002 3220 2275

Sent To: Anadarko Land Corp.
Attn: Dale Tingen
Street and Apt. No.: 1201 Lake Robbins Drive
City, State, ZIP+4®: The Woodlands, Texas 77380

PS Form 3800, April 2015 PSN 7530-02-000-9047 See Reverse for Instructions

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Domestic Mail Only

For delivery information, visit our website at www.usps.com®.

OFFICIAL USE

Certified Mail Fee
$

Extra Services & Fees (check box, add fee as appropriate)
- Return Receipt (hardcopy) $
- Return Receipt (electronic) $
- Certified Mail Restricted Delivery $
- Adult Signature Required $ APR 04 2019
- Adult Signature Restricted Delivery $

Postage
$

Total Postage and Fees
$

Postmark Here

SOUTHEAST CROSSING, TYLER, TX
USPS-75713

7018 1830 0001 5708 8799

Sent To: Karen Oltman
Street and Apt. No.: 8970 Hurd Lane
City, State, ZIP+4®: Payette, Idaho 83661

See Reverse for Instructions

U.S. Postal Service™
CERTIFIED MAIL® RECEIPT
Domestic Mail Only

For delivery information, visit our website at www.usps.com®.

OFFICIAL USE

Certified Mail Fee
$

Extra Services & Fees (check box, add fee as appropriate)
- Return Receipt (hardcopy) $
- Return Receipt (electronic) $
- Certified Mail Restricted Delivery $
- Adult Signature Required $
- Adult Signature Restricted Delivery $

Postage
$

Total Postage and Fees
$

Postmark Here

SOUTHEAST CROSSING TYLER, TX
APR 04 2019
USPS-75713

7018 2290 0001 1721 6199

Sent To: Alan R. Grace and
Glenda D. Grace
Street and Apt. No.: 1755 Killebrew Drive
City, State, ZIP+4®: Payette, Idaho 83661

See Reverse for Instructions

AM Idaho, LLC
16600 Park Row
Houston, Texas 77084

_____, 2019

[NAME AND ADDRESS]

Re: PAID-UP OIL AND GAS LEASE PROPOSAL
_____ GROSS ACRES, _____ NET ACRES
TAX PARCEL #: _____
PAYETTE COUNTY, IDAHO

Dear _____-:

AM Idaho, LLC desires to reach an agreement with you and lease the mineral rights of _____, with the intention to develop them within a gas or oil unit.

The offer provides for the following terms:

- **5 year primary term**
- **$100.00 per net mineral acre** (one-time signing bonus payable by a check in the amount of $_____)
- **1/8 royalty on marketable gas and oil for the life of the well**
- **Option to extend the primary term for 5 years at $100.00 per net mineral acre**

***Note: This offer is contingent upon the approval of title and a lease form by both parties.***

Upon your acceptance, please execute the subject Memorandum and Lease, in the presence of a Notary Public, who should sign, date and seal the acknowledgment. Please keep the "COPY" for your records and **return, via the enclosed stamp envelope, the Original Executed Memorandum, Oil and Gas Lease and the W-9 Form, to me.** Upon approval of all we will mail the signing bonus. Please allow 14 to 21 business days for receipt of said bonus.

Should you have any questions and/or would care to discuss any details of this offer, please do not hesitate to contact me at **(903) 780-1202** or Charlesb@TIELandLLC.com.

Respectfully Submitted,

Charles R. Brawner
Independent Petroleum Landman
On behalf of TIE Land, LLC