THE STATE of ALASKA
GOVERNOR BILL WALKER

Department of Natural Resources
DIVISION OF OIL & GAS
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Alaska Department of Natural Resources
Division of Oil and Gas
Public Notice of Application to Form the Hemi Springs Unit

The Department of Natural Resources, Division of Oil and Gas (Division), gives notice under 11 AAC 83.311 of an application for the formation of the Hemi Springs Unit (HSU) under 11 AAC 83.306. The proposed HSU is located on the North Slope of Alaska, approximately 18 miles due west of Deadhorse, near the existing Kuparuk River and Prudhoe Bay units. Alliance Exploration LLC (Alliance), the HSU operator, filed an application with the Division to establish the HSU on June 6, 2017. Alliance's address is 2533 N Carson St, Carson City, Nevada 89706.

The proposed expansion area covers approximately 7573 acres in three (3) State oil and gas leases including all or portions of the following lands:

Umiat Meridian, Alaska
T. 10 N., R. 11 E.,
secs. 13, 14, 23, and 24.
T. 10 N., R. 12 E.,
secs. 5 thru 8 and secs. 17 thru 20.

In accordance with 11 AAC 83.356, geological, geophysical, and engineering information were submitted in support of the application to form the HSU. The application will be approved if consistent with 11 AAC 83.303 and other applicable statutes and regulations.

You may review the non-confidential portions of the application on the Division's website http://dog.dnr.alaska.gov/Units/Units.htm, in-person at the Division's office, or by writing to Division of Oil & Gas, Units Section, 550 West 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3560. The Division charges a photocopy fee of $.25 per sheet, per 11 AAC 05.010(a)(16)(C).

Any person may file written comments on the application. Comments must be received by 4:30 p.m., Alaska Time, Monday, July 24, 2017 and should be mailed to the Division of Oil and Gas, attention Kevin Pike, Unit Manager, at the above address. You may also submit comments via email to DOG.Units@alaska.gov. The Division will consider all timely written comments and will evaluate the application based on the criteria in 11 AAC 83.303 and 83.356. Within 60 days after the close of the comment period, the Division will issue a written decision to approve or deny the application in accordance with 11 AAC 83.316. Individuals or groups of people with disabilities, who require special accommodations, auxiliary aids or services, or alternative communication formats, please contact Sean Clifton at (907) 296-8507, or TDD (907) 269-8411 (5 days before end of comment period).

This notice also appears on the State of Alaska website at http://dnr.alaska.gov/commis/pic/pubnotfrm.

Date first published in newspaper: June 20, 2017

June 2, 2017

Mr. Andy Mack, Commissioner Alaska
Department of Natural Resources
550 W. 7th Avenue, Suite 1400
Anchorage, Alaska 99501

Re: Application for Approval to Establish the Hemi Springs Unit

Dear Commissioner Mack:

In accordance with 11 AAC 83.306, Alliance Exploration, LLC ("Alliance"), as proposed Operator of the proposed Hemi Springs Unit, hereby petitions the Department of Natural Resources (the "Department") to approve the proposed Hemi Springs Unit Agreement and the formation of the Hemi Springs Unit. Alliance is qualified to be a unit operator under 11 AAC 83.331.

In accordance with 11 AAC 83.341 and Section 8.1 of the proposed Hemi Springs Unit Agreement, Alliance hereby requests approval of the Initial Unit Plan of Exploration. Alliance is submitting an initial Plan of Exploration ("POE") for the Hemi Springs Unit. The Initial POE will is for a term of June 1, 2017 through June 1, 2019, and is set forth in Exhibit G.

As required by 11 AAC 83.321 five copies (one original and four copies) of the non-confidential portions of this Application for Approval to Establish the Hemi Springs Unit (hereinafter referred to as the ("Application") and two copies of the confidential portions of the Application (hereinafter referred to as the "Geological, Geophysical and Engineering Report"), submitted under separate cover with this Application, are submitted as part of this Application. Under the provisions of AS 38.05.035(a)(9)(C), Alliance requests that the two copies of the confidential portions of the Application remain confidential.

I. Application Contents

1. Background and description of the area proposed to be unitized.

2. A discussion of why this Application satisfies the criteria set out in 11 AAC 83.303 to approve a unit agreement as they relate to the proposed Hemi Springs Unit leases, including pertinent **confidential** geological, geophysical, engineering, well data,

and interpretations of those data, directly supporting the Application ("Geologic, Geophysical and Engineering Report") as required by 11 AAC 83.306(4).

3. A summary and request for written findings and approval of the proposed Hemi Springs Unit Agreement pursuant to 11 AAC 83.303.

4. DNR's model unit agreement ("Hemi Springs Unit Agreement"), which has been executed by Alliance who owns and controls one hundred percent (100%) of the working interest allocable to the leases comprising a controlling interest in the proposed Hemi Springs Unit. Pursuant to 11 AAC 83.306, included with the Unit Agreement are a map of the proposed Hemi Springs Unit (**Exhibit B**) and legal descriptions of the lands included in the unit application (**Exhibit A**).

5. Pursuant to 11 AAC 83.351, Alliance is currently deferring the determination of the Participating Area (PA) for the Alliance Unit. It is Alliance's understanding that delaying the submission of the PA application eliminates submission of Exhibits C, D, E, and F of the Unit Agreement. If DNR requires the submission of this material to review the unitization application, Alliance will submit these Exhibits.

6. As required by 11 AAC 83.306(1), a two-year Initial Unit Plan of Exploration for the Hemi Springs Unit that complies with the criteria set out in 11 AAC 83.343(**Exhibit G**).

7. Payment in the amount of $5,000 as the Application fee for a new unit.

II. Background and Description of the Area Proposed to be Unitized

The proposed Hemi Springs Unit is located on Alaska's North Slope, adjacent to the southern boundary of the Prudhoe Bay Unit and approximately 18 miles from Deadhorse. The proposed Hemi Springs Unit contains three state oil and gas leases from the old Hemi Springs, which was formed in 1983.

Approval of the proposed Hemi Springs Unit would cover approximately 10,133 acres of State of Alaska lands.

Alliance is the sole working interest owner of the three individual State of Alaska oil and gas leases that form the basis for the unit application.

III. Discussion of 11 AAC 83.303 Criteria

A. Proposed Unit Area

DNR's regulations define a unit to mean "a group of leases covering all or part of one or more potential hydrocarbon accumulations, or all or part of one or more adjacent or vertically separate oil or gas reservoirs[.]"[1] A key criterion for unitization, therefore, is that the leases contained in the unit application overlie a reservoir or potential hydrocarbon accumulation.

DNR defines a "reservoir" to mean an "oil or gas accumulation which has been discovered by drilling and evaluated by testing and which is separate from any other accumulation of oil and gas."[2] DNR defines a "potential hydrocarbon accumulation" to mean "any structural or stratigraphic entrapping mechanism which has been reasonably defined and delineated through geophysical, geological, or other means and which contains one or more intervals, zones, strata, or formations having the necessary physical characteristics to accumulate and prevent the escape of oil and gas."[3]

DNR regulations therefore provide that a unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations.[4]

The proposed Hemi Springs Unit Area includes two separate reservoir targets, Kuparuk C and Ivishak. The primary reservoir target is a stratigraphic trap in the Kuparuk C sand defined by an amplitude anomaly observed in the Storms 3D Seismic survey. The amplitude anomaly is considered to represent good quality sand. The ARCO Hemi Springs State 1 encountered good sand and oil in the Kuparuk C and is drilled on a structural down-dip portion of the amplitude anomaly, closer to an oil water contact and/or transition zone. As a result, it is believed that the Hemi Springs State 1 did not drill the most optimum location for Kuparuk C pay production. The secondary and deeper reservoir target is in the Ivishak and will be drilled on a structural high above the oil water contact as defined by the Storms 3D seismic survey. The Hemi Springs State 1 penetrated Ivishak and encountered a thin 3.5 feet of pay section at the top of the Ivishak interval. The proposed well(s) targeting the Ivishak will drill a closed structural high further above the oil water contact and thus will encounter a thicker pay section. The Ivishak target will also be in a location bounded by a well defined fault providing additional trapping confidence.

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1 11 AAC 83.395(7).

2 11 AAC 83.395(6).

3 11 AAC 83.395(7).

4 11 AAC 83.356.

Alliance is including these leases within the proposed Hemi Springs Unit in order to develop a timely exploration program to test this acreage.

A map of the proposed Hemi Springs Unit Area is attached to the proposed Hemi Springs Unit Agreement as **Exhibit B,** which is enclosed herein.

The proposed Hemi Springs Unit seeks to unitize all of the following State of Alaska leases, totaling about 7,573 acres:

- Lease No. ADL 391544 (Tract 1), effective 7/1/2010, with a seven year primary lease term;

- Lease No. ADL 392104 (Tract 2), effective 12/1/2012, with a ten year primary lease term;

- Lease No. ADL 391545 (Tract 3), effective 7/1/2010, with a seven year primary lease term; and

A more complete description of the State of Alaska leases proposed to be included in the Hemi Springs Unit Area is set forth in **Exhibit A** to the proposed Hemi Springs Unit Agreement.

C. Approval Criteria.

Alliance respectfully submits that approval of the proposed Hemi Springs Unit Agreement and the formation of the Hemi Springs Unit meets the criteria of 11 AAC 83.303(a), because it will:

1. Promote the Conservation of All Natural Resources, Including All or Part of an Oil and Gas Pool, Field or Like Area (11 AAC 83.303(a)(1))

Unitization of the leases in the proposed Hemi Springs Unit Area provides an efficient, integrated approach to development of the numerous actual and potential reservoirs which promotes the conservation of all natural resources.

Consistent with 11 AAC 83.341(a), Alliance has submitted an Initial POE with a two-year term. In the Initial POE, Alliance intends to drill oil delineation wells beginning in 2018 from an ice pad. Two drilling locations are proposed. Drilling location 1 will drill a straight pilot hole in ADL 392104, surface location Twn 10 N, Rnge 11E, Sec 13 into the Kuparuk C and Ivishak. A whip stock will be set above the Kuparuk C and a lateral will be drilled directionally to the southwest along the Kuparuk C for 1000+ feet for a bottom hole location in Twnship 10 N, Rnge 11E, Sec 13. Drill location 2 will be a straight hole to test

the Ivishak at surface location Twn 10N, Rnge 11E Sec 14. An Option to set a whipstock and drill directionally to the northeast along the Kuparuk C for several thousand feet at a bottom hole location in Twn 10 N, Rnge 11E, Sec 13 will be determined at TD of the Pilot hole .

At this time, sanctioning for development of the oil reservoirs is pending the results of the wells. Alliance will move expeditiously to move the oil reserve into production as soon as practicable, assuming successful well results and the receipt of all necessary authorizations and permits.

Alliance's ability to coordinate the foregoing development activities through unitization will reduce environmental impacts. One operator can efficiently plan and execute a development plan for the confirmed and potential oil reservoirs, utilizing a minimum amount of surface facilities and infrastructure.

Unitization also allows for coordinated use of infrastructure and for joint development of leases in an orderly and rational manner over a wide geographic area. Allowing a Unit Operator to develop and explore in this fashion minimizes economic and physical waste and results in more prudent and rational decision-making. Moreover, the data obtained from new wells is necessary to optimize the location of drilling future development wells. Coordinated development will therefore conserve resources and facilitate the greatest ultimate recovery of those resources.

The economic risk of exploratory drilling within the unit area is reduced with the establishment of infrastructure that will be put in place to develop the proposed Hemi Springs Unit. Exploratory drilling is economically challenging for an operator and the potential to explore for satellite hydrocarbon accumulations on lease acreage within the Hemi Springs area will be supported by the new infrastructure. Therefore, the State of Alaska benefits with inclusion of the acreage identified by Alliance.

In contrast, without unitization, the unregulated development of reservoirs can result in waste caused by unnecessarily dense drilling, an increase in environmental damage caused by the concentration of surface activity, and the potential for the inefficient duplication of production, gathering, and processing facilities because development decisions made be dictated by lease preservation concerns instead of prudent business practices. Moreover, if exploration acreage is not included within the Hemi Springs Unit, there is an increased likelihood that this acreage will not be drilled in the near future.

2. *Promote the Prevention of Economic and Physical Waste (11 AAC 83.303(a)(2))*

Unitization of the leases in the proposed Hemi Springs Unit Area will promote the prevention of economic and physical waste by maximizing the recovery of oil and gas. Unitization allows exploration and development wells to be drilled in the best possible location to maximize drainage. Unitization also allows for implementation of economic reservoir pressure maintenance efforts as early as first production in each individual reservoir and enables numerous relatively small accumulations to share facilities and infrastructure to achieve synergies required to justify economic/commercial development and maximize production.

3. Provide for the Protection of All Parties of Interest, Including the State (11 AAC 83.303(a)(3))

Unitization of the leases in the proposed Hemi Springs Unit Area will provide for the protection of all parties of interest by allowing production from each individual reservoir to be allocated back to each tract contributing to production in paying quantities based on the interpretation of all the geological, geophysical, engineering, and well data available.

To date, Alliance, and its predessors, have acquired data to identify several potential hydrocarbon accumulations and reservoirs within the proposed Hemi Springs Unit Area. Alliance wishes to continue its exploratory and delineation activities and conduct development activities in the Hemi Springs Unit Area subject to the terms and conditions of the proposed Initial Plan of Exploration.

Without the unit, the leases will expire and any development will be delayed. Delaying the delineation of the state's resources harms the state's interest and is contrary to the public interest. *See* AS 38.05.180(a).

Unitization advances the State of Alaska's and Alliance's economic interests because it improves the economics of the project. DNR has long understood that an operator "would not produce marginal economic reserves on a lease by lease basis, but would produce them through unitized operations" because facility consolidation saves capital and promotes better reservoir management.[5] Indeed, the high cost and high risk of the potential hydrocarbon accumulations require numerous prospects being explored and developed as a program, which then generate economic synergies and improves the probability of continuing economic development. The pace of exploration and development is linked to the ability of any operator to accumulate an acreage position, that offers sufficient access, and control of enough prospects to provide the economic justification to proceed with exploration and development activities.

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[5] *See Pioneer Unit Agreement, Decision and Findings of the Commissioner,* March 31, 1998 at 11.

Unitization is also critical to financing exploration, delineation, and development activities because it provides security to lenders that exploration and development will occur in a prudent and coordinated manner that minimizes waste and maximizes recovery.

Unitization is also in the state's conservation interests because it fosters efficient exploration and development of the state's resources by a single operator while minimizing impacts to the area's cultural, biological, and environmental resources. By reducing the amount of land and fish and wildlife habitat that would otherwise be disrupted by individual lease development, the environment is better protected and there is less potential for interference with subsistence activities.

4. *Environmental Costs and Benefits of Formation of Hemi Springs Unit (11 AAC 83.303(b)(1))*

During exploration and through development operations of the Hemi Springs Unit, activities will have the minimum amount of surface impact consistent with the prudent and efficient development practices of the oil and gas resources on the North Slope. This can only happen through unitized development because the environmental impacts would be significantly greater if the reservoirs were developed on a lease-by-lease or well-by-well basis in order to preserve leases, rather than on an integrated unitized basis.

Indeed, DNR has long recognized that the anticipated activity under the Unit Agreement will impact wildlife, habitat, and subsistence activity less than if Alliance were to develop the leases individually because unitization exploration, development, and production minimizes surface impacts.

In addition, Alliance will comply with the lease stipulations and mitigation measures set forth in the North Slope Areawide Best Interest Finding and which have been included in Alliance's leases and will be incorporated in the permits and authorizations that Alliance will receive before conducting activities on state lands. These measures include seasonal restrictions on specific activies, reduce the impact on fish, wildlife, and human populations. Mitigation measures also address impacts to subsistence access and harvests, protection of primary waterfowl areas, site restoration, construction of pipelines, seasonal restrictions on operations, and access to, or use of, the leased lands.

5. *Geological and Engineering Characteristics of the Hemi Springs Unit Reservoirs and Prior Exploration Activities In and Adjacent to the Unit Area (11 AAC 83.303(b)).*

The CONFIDENTIAL Geological, Geophysical, and Engineering Submittal attached to this application and during our technical review meeting with the Division, describe the characteristics of the Hemi Springs reservoirs and potential hydrocarbon accumulations and exploration prospects.

The proposed unit area encompasses three tracts that lie southwest of the PBU. The primary exploration target is the Kupurak C sand, with the possibility of encountering other hydrocarbon-bearing sandstones, including the Ivishak sandstone.

One well currently exists within the proposed unit area, the Hemi Springs St. 1 well. The prospects consist of at least one stratigraphic trap in the Kuparuk formation and a structural trap in the Ivishak. The prospects have been defined by seismic mapping using the Storms 2005 3D Seismic Survey conducted by Fairweather Geophysical and processed by WesternGeco for ConocoPhillips and Pioneer. The strorms 3-D covers approximately 280 square miles.

The initial phase of exploration in the vicinity of the proposed Hemi Springs Unit began in 1969 with the drilling of two wells with Cretaceous exploration objectives. The first well, Mobil Hemi State 3-09-11 (Sec. 3, T9N, R11E, U.M.), was drilled to a total measured depth of 6,032', bottoming in the Middle Cretaceous Brookian section. Although conventional cores were attempted in both the West Sak and Brookian sections, only 13 feet of core was recovered in the Lower Brookian section. Conventional sidewall cores were taken in the West Sak interval, recovering oil saturated sands with fair to good shows. The well was plugged and abandoned without testing.

The second well, ARCO Toolik Fed 2 (Sec. 5, T8N, R12E, U.M.), located southwest of the Hemi Springs Unit, was drilled to a total measured depth of 6,032', bottoming in the Kingak formation. A thin (~10' thick) Kuparuk "C" sandstone was present. Thirty one sidewall cores were recovered between the intervals of 2,330' and 7,698', and there were some mudlog shows in the West Sak and Brookian intervals. No commercial accumulation of hydrocarbons was found in the well.

Several subsequent exploration wells, outside of the PBU and in the vicinity of the Hemi Spring Unit, were drilled to Ivishak (Sadlerochit) and/or Kuparuk primary exploration objectives.

In 1984, the ARCO Hemi Springs State 1 well (Sec.12, T10N, R11E, U.M.), located within the old 1983 Hemi Springs Unit and the bottom hole location in the proposed smaller Hemi Springs Unit. The well was drilled to a depth of 10,937 MD bottoming in the Lisburne formation. The primary exploration objectives of the well were the West Sak Sands and the Ivishak Formation with the Lisburne as a secondary objective. The West Sak sands were cored between the depths of 4,527' and 4,856', and 30 sidewall cores were also taken. The West Sak interval had marginal shows with an apparent oil/ water contact (~ -

4,200'ss) within one of the upper Schrader Bluff sands. ARCO conducted two production tests in the lower sands of the West Sak Interval, and both recovered water. The Ivishak tested wet, the Lisburne looks wet based on logs and the Kuparuk C sand tested some gas and oil.

The G & G Hemi Springs Sag River 1 well (Sec. 14, T9N, R14E, U.M.) was drill to the Ivishak formation. Twenty-seven sidewall cores were recovered between the depths of 6,080' and 8,760', sampling sections of the West Sak, Colville (Brookian), Albian, and Pebble Shale (HRZ) intervals. The Kuparuk sandstone was not present and the Ivishak sandstone was wet. No tests were conducted and no commercial hydrocarbons appeared present based on the well logs. The well was plugged and abandoned.

In 1985, ARCO Alaska, Inc. drilled the Hemi Springs 3 well (Sec 13, T9N, R13E, U.M.), located south of the proposed Hemi Springs Unit, to a total depth of 10,059', bottoming in the Sadlerochit Formation. The Kuparuk formation was the primary objective, but it was not present and the interval from 8,567'to 8,833' that was cored consisted predominantly of mudstone. Well logs indicated that the Ivishak interval was wet.

In 1991, ARCO Alaska, Inc. drilled the Rock Flour 1 well (Sec 4, T10NE, R11E, U.M.) approximately four and one-half miles to the northwest of the Hemi Springs 1 well, and to a depth of 9,131'tvd. The well encountered wet Ivishak sands. The Cretaceous Kuparuk "C" had hydrocarbon shows, but well log analysis indicated that the interval appeared wet and was never tested. Sidewall cores taken from the West Sak interval contained oil saturated sands and appeared to contain oil, based on well log analysis.

In 2005, ENI formed the Rock Flour Unit adjacent to the proposed Hemi Springs Unit and drilled the Rock Flour 2 and 3 in 2007. Both wells targeted the shallow Ugnu and Schrader Bluff/West Sak Formations hoping for higher reservoir temperatures and less viscous oil. Oil was encountered in The Rock Flour 2 but was very viscous and tar like. Both wells were plugged and abandoned in 2007. The unt was Terminated in 2010.

In 2014 Repsol drilled the Tuttu 1 well, located 3 miles west of the Hemi Springs unit on southeast corner of the Kuparuk Unit Boundary. The well targeted the shallow Schrader Bluff/West Sak and the Kuparuk. Time constraints did not allow them to drill to the Kuparuk, instead they ran a VSP and TD'd in the HRZ. Oil staining, tar and free oil were observed in cuttings and core of the Schrader Bluff Formation.

This geological, geophysical and engineering discussion is limited to publicly available well, test, geological, geophysical, and engineering information within and adjacent to the proposed

The first planned exploration well within the proposed Hemi Springs Unit area is to drill through a portion of the Kupurak and Ivishak formations, correlative to the interval 7,196-10,120 MD in the Hemi Springs State 1 well.

6. Plan for Exploration of the Proposed Hemi Springs Unit Area (11 AAC 83.303(b)(4))

Exhibit G to the proposed Hemi Springs Unit Agreement sets forth the proposed Initial Unit Plan of Exploration. This Initial Plan of Exploration (POE) demonstrates that Alliance will timely explore, delineate, and if commercial reserves are identified, move the unit area into production.

More specifically, the Initial POE sets out a timely sequence of reservoir exploration activities that will facilitate the ultimate development and production of the reservoirs(s) underlying the unit area.

During the term of the Initial POE, Alliance will drill up to two wells within the unit area by June 1, 2019.

In short, the Initial POE sets out a timely sequence of reservoir delineation activities that will facilitate the ultimate development and production of the reservoir, if oil or gas is discovered in commercial quantities. Completion of these exploration activities as scheduled will satisfy the performance standards and diligence requirements set out in state law. Alliance's Initial POE allows for earlier exploration and confirmation of the prospect in the Hemi Springs Unit area than would occur under the individual leases. If Alliance fails to drill one well by June 1, 2019, the Hemi Springs Unit will automatically terminate.

7. Economic Costs and Benefits to the State

Approval of the Agreement in combination with the Initial POE will result in both shortterm and long-term economic benefits to the state. The assessment of the hydrocarbon potential of the leases will create jobs in the short-term. If the WIOs make a commercial discovery and begin development/production from the proposed Hemi Springs Unit, the state will earn royalty and tax revenues over the long-term life of the field. The Initial POE with the agreed-to terms and conditions advances exploration and evaluation of the prospects in the expansion area sooner than would occur under any individual lease exploration effort.

Some of the leases in the proposed unit area will expire on June 30, 2017, if they are not extended by unitization. If the leases expire, the leasehold interest will return to the state. The earliest that DNR could re-offer the land, is November 2017. There is no certainty that anyone would bid on the tracts or pursue exploration of this area. Moreover, it could be years before the new lessees would propose exploration of the area. Under the

proposed Agreement and Initial POE, Alliance commits to drill one well by the June 1, 2018 winter drilling season if it timely receives permits and authorizations and secures necessary contracts with vendors, and drill a second well by June 1, 2019, if the first well discovers commercial quantities of oil.

These commitments provide the state with the opportunity to receive royalties from the leases sooner than if the leases were allowed to expire and the acreage re-offered. In addition, Alliance's activities will generate employment opportunities for Alaskans and stimulate economic activity in the state.

8. *Other Relevant Factors (11 AAC 83.303(b)(6))*

DNR has a longstanding history of allowing a single lessee to unitize. In fact, in a June 3, 1975 Attorney General's Opinion, the Department of Law concluded that state law authorizes a single lessee to form a unit if the lessee can demonstrate that unitization is necessary for conservation purposes, prevent waste, or minimize environmental impacts. Alliance's application has demonstrated that unitizing these leases serves the purposes of unitization because it will allow for the timely and coordinated development of multiple reservoirs and the exploration and delineation of several highly prospective potential hydrocarbon accumulations. Conversely, denying this unit in favor of lease-by-lease development may result Alliance having to drill wells merely to preserve a lease instead of drilling based on geologic considerations. This is wasteful for the state given that as Lessor, the state should want to see wells drilled on the best data.

D. Term.

Consistent with 11 AAC 83.336, Alliance requests that the term of the proposed Hemi Springs Unit be for five years, until June 1, 2022, subject to the terms and conditions of the proposed Hemi Springs Unit Agreement.

IV. APPROVAL OF INITIAL UNIT PLAN OF EXPLORATION

In accordance with 11 AAC 83.341 and Section 8.1 of the proposed Hemi Springs Unit Agreement, Alliance, as operator and the only working interest owner of the proposed Hemi Springs Unit hereby requests DNR's approval of the Initial Unit Plan for the Hemi Springs Unit. The Initial Unit Plan of Exploration is enclosed herein. What follows summarizes the features of the Initial Unit Plan of Exploration:

- Alliance is permitting to potentially commence drilling a delineation well during the 2017-2018 winter season to drill up to two wells during the next two seasons.

Alliance requests that all acreage for each identified lease within the new unit remain intact for this unit application to better ensure that prospective acreage outside of the known hydrocarbon accumulation be available for exploration. The exploration prospects are unlikely to merit stand-alone funding to pursue independently. However, with the establishment of new infrastructure to develop and produce the Hemi Springs Unit hydrocarbon reserves, the process to explore and develop satellite accumulations becomes economically justifiable.

To summarize, key aspects of Alliance's unitization request and Initial Plan of Exploration are:

- Provides jobs for Alaskans
- Commences drilling of two wells in the 2017-18 winter season assuming prompt approval of the unit and timely receipt of permits
- Delineates and, if successful, will develop the hydrocarbon reserves in the proposed Hemi Springs Unit
- Provides the quickest path to development
- Minimizes environmental impacts
- Creates more competition on the North Slope

Please feel free to contact me at 315-682-0273 if you have questions or need to discuss the information submitted.

Respectfully,

Samuel Nappi
President

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
SUPPORT SERVICES DIVISION
FINANCIAL SERVICES SECTION
550 W 7TH AVE SUITE 1410
ANCHORAGE AK 99501-3561
(907) 269-8500

REC DATE	- AGREEMENT NUMBER --	CUST NO	RECEIPT	DESCRIPTION
06/06/2017	ADL 391544	60309	4248205	OIL AND GAS UNIT FORMATION

ALLIANCE EXPLORATION, LLC
PO BOX 876
EAST AURORA NY 14052

CASH AMOUNT $0.00
CHECK NUMBER 1230 RECEIPTED AMOUNT $5,000.00

REMITTER: ALLIANCE ENERGY LLC
6945 KASSONTA DR
JAMESVILLE AK 13078

COMMENTS: NT-UNIT APPLICATION FEE

RECEIPT - DO NOT PAY

Alaska Department of Natural Resources
DIVISION OF OIL AND GAS

Operator Questionnaire

This form is to be completed by individuals and organizations seeking to designate or change a unit operator to operate an oil and gas unit in the State of Alaska. It is to be completed to the full knowledge of the authorized representative of the proposed operator.

Please explain any omissions and use additional pages where applicable.

1. Name of Entity requesting to operate an oil and gas unit:

Entity Name: Alliance Exploration LLC

Entity Address: 2533 N. Carson Street, Carson City, NV 89706

Telephone Number 315-682-0273 Fax Number 315-682-0256

Authorized Representative: Jacob Grubka

E-mail Address: jgrubka@allianceenergy.net

2. Type of Organization, and Place of Incorporation (if applicable):

Limited Liability Company, Incorporated in Nevada

3. If entity is a limited liability Partnership, limited liability Corporation, or a Partnership, please provide a list of all the member's names and addresses:

Samuel Nappi, President and The Linger Trust

4. How long has the entity been in business? 1yr

How long has the entity worked in Alaska? 1 yr

5. Was the entity ever organized under another name? ☐ Yes ☒ No
If yes, please explain:

6. List relevant affiliated entities, if any. An entity will be considered affiliated with another if it controls, is controlled by, or is under common control with the entity.

n/a

7. Provide web link to the most recent quarterly filing with the U.S. Securities and Exchange Commission (if applicable). Please include stock exchange listing and ticker symbol.

n/a

8. List and describe your present business activities.

Exploration of oil and gas.

9. Specify sources of capital for operating this oil and gas unit.

Alliance Exploration LLC, Alliance Energy Group LLC & The Linger Trust

10. List and describe your previous projects that are similar in nature and scope to operating an oil and gas unit in the State of Alaska. (New or relatively new companies may provide resumes for the principals.)

First activity in Alaska was partnering with former Gov. Wally Hickel on the Kenai Peninsula. In the 1996 state lease sale, they

11. Has the entity submitting this request or any affiliated entity ever filed for bankruptcy, been adjudicated bankrupt, or made an assignment for the benefit of creditors? ☐ Yes ☒ No
If yes, please explain, including dates and docket numbers:

12. Is the entity submitting this request or any of its members or any affiliated entity now in default on any obligation, or subject to any unsatisfied judgement or lien? ☐ Yes ☒ No
If yes, please explain:

13. Has the entity submitting this request or any of its members or its contractors ever been served with a notice of violation of laws or regulations applicable to the management of oil and gas leases, or oil and gas units?
☐ Yes ☒ No If yes, please explain, including dates:

14. Is the entity or any of its members or its contractors in compliance with all decisions and authorizations from the Department of Natural Resources, Department of Environmental Conservation, and Alaska Oil and Gas Conservation Commission? ☒ Yes ☒ No
If no, please explain:

Please submit the following items as part of this questionnaire.

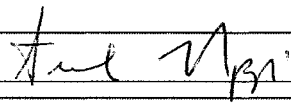
1. Copy of entity's current Alaska business license.

2. Designation of signatory authority for this request to operate an oil and gas unit. Please include corporate resolution (or appropriate documents) authorizing signatory authority.

3. Copy of most recent corporate (or individual member's) annual financial report.

Note: IF REQUESTED, FINANCIAL INFORMATION THAT IS stamped "Confidential" WILL BE protected from public disclosure under applicable state laws and REGULATIONS. AS 38.05.035(a)(8).

I CERTIFY that the information contained herein is true to the best of my knowledge.

Signature		Date	May 19, 2017
Name (Printed)	Samuel Nappi		
Title	President		

First activity in Alaska was partnering with former Gov. Wally Hickel on the Kenai Peninsula. In the 1996 state lease sale, they accumulated over 48,000 acres in oil and gas leases in the Cook Inlet. In 1998 working with partners including the former governor, they tested fields twice in the North Fork and then sold to Armstrong Oil & Gas. They had over 11,000 acres of leasehold in the Nikolaevsk Unit, which then sold to Chevron where they made a successful discovery.

Alaska Entity #10044026

State of Alaska

Department of Commerce, Community, and Economic Development

Corporations, Business, and Professional Licensing

Certificate of Registration

The undersigned, as Commissioner of Commerce, Community, and Economic Development of the State of Alaska, hereby certifies that a duly signed and verified filing pursuant to the provisions of Alaska Statutes has been received in this office and has been found to conform to law.

ACCORDINGLY, the undersigned, as Commissioner of Commerce, Community, and Economic Development, and by virtue of the authority vested in me by law, hereby issues this certificate to

Alliance Exploration LLC
to transact business in this state under the name of
Alliance Exploration LLC

IN TESTIMONY WHEREOF, I execute the certificate and affix the Great Seal of the State of Alaska effective **November 02, 2016.**

Chris Hladick
Commissioner

AK Entity #: 10044026
Date Filed: 11/02/2016
State of Alaska, DCCED

THE STATE
of ALASKA

Department of Commerce, Community, and Economic Development
Division of Corporations, Business, and Professional Licensing
PO Box 110806, Juneau, AK 99811-0806
(907) 465-2550 • Email: *corporations@alaska.gov*
Website: *Corporations.Alaska.gov*

FOR DIVISION USE ONLY

Web-11/2/2016 1:33:55 PM

Certificate of Registration

Foreign Limited Liability Company

1 - Entity Name

Legal Name: Alliance Exploration LLC

2 - Home State

State of domicile (home state NEVADA, UNITED STATES

Date of Incorporation: 11/2/2016

The entity is in good standing in the state of domicile.

3 - Duration

The duration of the entity is perpetual.

4 - Purpose

Exploration and production of oil and gas and any legal business activity.

5 - NAICS Code

211111 - CRUDE PETROLEUM AND NATURAL GAS EXTRACTION

6 - Registered Agent

Name: NATIONAL CORPORATE RESEARCH, LTD.

Mailing Address: PO Box 33735, Juneau, AK 99803

Physical Address: 3085 Mountainwood Circle, Juneau, AK 99801

7 - Entity Addresses

Mailing Address: 202 South Minnesota Street, Carson City , NV 89703

Physical Address: 202 South Minnesota Street, Carson City , NV 89703

8 - Management

The limited liability company is managed by a manager.

9 - Officials

Name	Address	% Owned	Titles
The Linger Trust	10 S. Wacker Drive, 40th Floor, Chicago, IL 60606	100	Manager, Member

Name of person completing this online application

I certify under penalty of perjury under the Uniform Electronic Transaction Act and the laws of the State of Alaska that the information provided in this application is true and correct, and further certify that by submitting this electronic filing I am contractually authorized by the Official(s) listed above to act on behalf of this entity.

Name: Sarah E. Filler

OPERATING AGREEMENT
OF
ALLIANCE EXPLORATION LLC

This Operating Agreement (the "Agreement") is made effective as of this 2nd day of November, 2016.

RECITALS:

WHEREAS, the undersigned desires to operate a Nevada Limited Liability Company under the name Alliance Exploration LLC (the "Company").

NOW, THEREFORE, the Company shall be operated in accordance with the following:

1. **Defined Terms**. All capitalized terms in this Agreement shall have the meaning specified in Section 12 of this Agreement. Other terms are defined in the text of this Agreement; and, throughout this Agreement, those terms shall have the meanings respectively ascribed to them.

2. **Formation and Name; Purpose; Term**.

2.1 Organization. The Company was organized by Sarah E. Filler as a limited liability company pursuant to filing the Articles of Organization with the office of the Secretary of State of the State of Nevada on November 2, 2016. The Member hereby approves, ratifies, confirms and adopts all actions taken by Sarah E. Filler as the organizer of the Company and the filing of the Articles of Organization.

2.2 Name of the Company. The Company was formed under the name Alliance Exploration LLC. The Company may do business under that name and under any other name or names which the Manager selects.

2.3 Purpose. The Company has been formed for the purpose of engaging in any lawful business under Law. The Company may engage in any and all other activities as may be necessary, incidental, or convenient to carry out the business of the Company as contemplated by this Agreement and transact any other business for which a limited liability company may be authorized to conduct under Law.

2.4 Term. The term of the Company commenced upon the filing of the Articles of Organization with the Nevada Secretary of State on November 2, 2016 and shall continue until its existence is terminated pursuant to this Agreement.

2.5 Interest in Property. No real or personal property of the Company shall be deemed to be owned by any Member individually, but shall be owned by, and title shall be vested solely in, the Company.

2.6 Place of Business. The principal office of the Company shall be located at 2533 N. Carson Street, Carson City, NV 89706, or at such other place as shall be determined from time to time by the Manager.

3. **Members' Capital; Capital Accounts.**

3.1 Initial Capital Contributions. Upon execution of this Agreement, the Members shall contribute to the Company the property set forth in Schedule A attached hereto (the "Initial Capital Contributions").

3.2 Limit on Withdrawal of Capital; No Interest on Capital. No Member shall be entitled to withdraw any part of his, her or its Capital Contribution, or to receive any distributions from the Company, except as provided in Section 4.2 of this Agreement.

3.3 No Personal Liability. Except as otherwise provided in any non-waivable provision under Law, by other applicable law, or expressly in this Agreement, no Member will be obligated personally for any debt, obligation, or liability of the Company or the other Members, whether arising in contract, tort, or otherwise, solely by reason of being a Member.

4. **Profits, Losses and Cash Flow Distributions.**

4.1 Profits and Losses. The Members shall share the Net Profits, the Net Losses, and any tax credits arising from the operation of the Company and the Company's business in accordance with their respective Profit Sharing Percentages. The terms "Net Profits" and "Net Losses" shall mean the net profits and net losses (including any depreciation deductions) of the Company as determined for federal income tax purposes.

4.2 Distributions of Cash Flow from Operations. The timing and amount of the distributions of cash flow from operations of the Company for each fiscal year of the Company shall be determined by the Manager.

5. **Management.**

5.1 Management and Control. The management and control of the day-to-day operations and business of the Company shall rest exclusively with the Manager. There shall be one (1) Manager. Initially, the Manager shall be The Linger Trust and shall serve until such time as such Manger's successor has been elected and qualified, or until such Manager's earlier death, resignation or removal. Any Manager may be removed with or without cause by the vote or consent of the Members holding a Majority-In-Interest and any successor shall be appointed by Members holding a Majority-In-Interest.

5.2 Officers of the Company. The Company may have such officers as the Manager, in its, his or her sole discretion may appoint from time to time, including, without limitation, a President, Executive Vice-President, one or more Vice Presidents, a Secretary, and a Treasurer. Any two or more offices may be held by the same person.

(a) Election and Term of Office. All officers shall be elected by the Manager. The officers need not be a Manager. Unless elected for a lesser term, and subject always to the right of the Manager to remove an officer with or without cause, each officer shall hold office for one year or until such officer's successor has been elected and qualified.

(b) The President. The President, subject to the discretion of the Manager, shall have general control and management of the business, property, and affairs of the Company. The President shall preside at all meetings of Members. In the absence or incapacity of any other officer of the Company, the President shall have the authority and may perform the duties of that officer. Initially, the President of the Company shall be Samuel G. Nappi.

(c) The Vice Presidents. Each Vice President, including the Executive Vice-President, if any, shall, in the absence or incapacity of the President and in order of seniority as fixed by the Manager, have the authority and perform the duties of the President, and each shall have such other authority and perform such other duties as the Manager may prescribe.

(d) The Secretary. The Secretary shall (a) attend all meetings of the Manager and all meetings of Members and record all votes and the minutes of all proceedings in a book to be kept for that purpose, (b) perform like duties for committees of the Company when required, (c) give, or cause to be given, notice of all meetings of the Members and special meetings of the Manager, and (d) have such other authority and perform such other duties as usually pertain to the office or as may be prescribed by the Manager.

(e) The Treasurer. The Treasurer shall (a) have the care and custody of all the moneys and securities of the Company, (b) keep or cause to be kept complete and accurate books of account of all moneys received and paid on account of the Company, (c) sign such instruments as require the Treasurer's signature, and (d) have such other authority and perform such other duties as usually pertain to the office or as the Manager may prescribe.

(f) Assistant Officers. Any Assistant Vice President, Assistant Secretary, or Assistant Treasurer elected by the Manager shall (a) assist the Vice President, Secretary, or Treasurer, respectively, as the case may be, (b) possess that officer's authority and perform that officer's duties in that officer's absence or incapacity, and, (c) have such other authority and perform such other duties as the Manager may prescribe.

(g) Appointed Officers. The Manager may delegate to any officer or committee the power to appoint and to remove any subordinate officer, agent, or employee.

6. **Voting Rights and Meetings**.

6.1 No Annual Meetings. The Company is not required to hold annual meetings. Meetings of the Members shall be held at any time when called pursuant to the terms of this Agreement.

6.2 Voting. Except as provided for in this Agreement, all actions or decisions of the Company to be determined at a meeting, shall require the vote and approval of the Members holding the Majority in Interest of the Company who are entitled to vote thereon.

6.3 Calling and Place of Meetings. Meetings of the Members may be called by a Manager or by Members holding in aggregate more than 49% of the Profit Sharing Percentages of the Company. Meetings of the Members may be held at any place within or without the State of Nevada, as determined by the Persons calling such meeting. Members may participate in a meeting by means of a conference telephone or similar communication

equipment by means of which all persons participating in the meeting can hear each other. Such participation shall constitute presence in person at the meeting.

7. **Prohibition Against Encumbrance**. Unless consented to in writing by the Manger, a Member may not pledge, cause a lien to be placed against, or encumber its, his or her Membership Interest in any way.

8. **Power of Attorney**.

8.1 Grant of Power. Each Member constitutes and appoints the Manager as the Member's true and lawful attorney-in-fact ("Attorney-in-Fact"), and in the Member's name, place and stead, to make, execute, sign, acknowledge, and file:

(a) the Articles of Organization;

(b) all documents (including amendments to the Articles of Organization and this Agreement) which the Attorney-in-Fact deems appropriate to reflect any amendment, change, or modification of this Agreement;

(c) any and all other certificates or other instruments required to be filed by the Company under the laws of the State of Nevada or of any other state or jurisdiction, including, without limitation, any certificate or other instruments necessary in order for the Company to continue to qualify as a limited liability company under the laws of the State of Nevada;

(d) one or more fictitious or trade name certificates; and

(e) all documents which may be required to dissolve and terminate the Company and to cancel its Articles of Organization, provided the dissolution is in accordance with this Agreement.

8.2 Irrevocability. The foregoing power of attorney is irrevocable and is coupled with an interest, and, to the extent permitted by applicable law, shall survive the dissolution, death or disability of a Member. It also shall survive the transfer of a Membership Interest, except that if the transferee is admitted as a Member, this power of attorney shall survive the delivery of the assignment for the sole purpose of enabling the Attorney-in-Fact to execute, acknowledge, and file any documents needed to effectuate the substitution. Each Member shall be bound by any representations made by the Attorney-in-Fact acting in good faith pursuant to this power of attorney, and each Member hereby waives any and all defenses which may be available to contest, negate, or disaffirm the action of the Attorney-in-Fact taken in good faith under this power of attorney.

9. **Transfer of Membership Interests**. Unless expressly contemplated hereunder or by written consent of the Manager and in accordance with applicable law, a Member may not sell, transfer, assign, or otherwise dispose of its, his or her Membership Interest.

10. **Dissolution and Liquidation**.

10.1 Dissolution. The Company shall be dissolved by the agreement of a Majority in Interest of the Members to do so. In the event there is only one Member of the Company, upon the death, bankruptcy, dissolution, expulsion, incapacity, or withdrawal of such Member, such Member's successor shall automatically be admitted as a Member.

10.2 Winding Up Affairs and Distribution of Assets. Upon dissolution of the Company, the Manager shall proceed to wind up the affairs of the Company, liquidate the remaining property and assets of the Company, and terminate the Company. The proceeds of such liquidation shall be distributed in accordance with the Law.

11. **Miscellaneous Provisions**.

11.1 Notices. Except as otherwise provided for in this Agreement, any notices called for under this Agreement shall be in writing and shall be deemed adequately given when personally delivered, or mailed or given by other means of written communication, to the party or parties for whom such notices are intended at their respective address as shown in the records of the Company or given by the party to the Company for the purpose of notice. The notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication.

11.2 Section Headings. The Section Headings in this Agreement are inserted for convenience and identification only and are in no way intended to define or limit the scope, extent or intent of this Agreement or any of the provisions hereof.

11.3 Construction. Whenever the singular number is used herein, the same shall include the plural; and the neuter, masculine and feminine genders shall include each other.

11.4 Severability. Each provision of this Agreement shall be considered separable and if for any reason any provision or provisions herein are determined to be invalid and contrary to any existing or future law, such invalidity shall not impair the operation of or affect those portions of this Agreement which are valid.

11.5 Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Nevada.

11.6 Entire Agreement; Amendments. This Agreement constitutes the entire Agreement. Any prior agreements among the parties with respect to the organization or operation of the Company, whether written or oral, are merged herein and shall be of no force or effect. This Agreement cannot be changed, modified or discharged orally but only by an agreement in writing.

11.7 Successors and Assigns. Subject in all respects to the limitations on transferability contained herein, this Agreement shall be binding upon, and shall inure to the benefit of, the heirs, administrators, personal representatives, successors and assigns of the respective parties hereto.

11.8 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any of the creditors of the Company or the Members.

12. **Definitions**.

12.1 "Agreement" means this Operating Agreement, as amended from time to time.

12.2 "Capital Contribution" means the total amount of cash and the fair market value of any other assets contributed to the Company by a Member, net of liabilities assumed or to which the assets are subject.

12.3 "Company" means the limited liability company formed in accordance with this Agreement.

12.4 "Law" means the laws of the State of Nevada governing limited liability companies, as amended from time to time.

12.5 "Majority in Interest" shall mean the Members who own a majority of the Profit Sharing Percentages in the Company.

12.6 "Manager" or "Managers" shall mean the Person or Persons designated as such pursuant to Section 5.1 of this Agreement.

12.7 "Member" means each Person signing this Agreement as a Member and any Person who subsequently is admitted as a Member of the Company.

12.8 "Membership Interest" or "Interest" means all economic and ownership rights of a Member in the Company set forth in this Agreement.

12.9 "Net Profit" and "Net Loss" shall have the meaning ascribed to them in Section 4.1 of this Agreement.

12.10 "Profit Sharing Percentage" means the Profit Sharing Percentage for each Member is as set forth on Schedule "A".

12.11 "Person" means and includes an individual, corporation, partnership, association, limited liability company, trust, estate, or other entity.

IN WITNESS WHEREOF, the undersigned his executed this Agreement as of the date first above written.

The Linger Trust

Carol A. Nappi

By: Carol A. Nappi
Its: Trustee

SCHEDULE "A"

Member	Initial Capital Contribution	Profit Sharing Percentage
The Linger Trust	$100	100%

HEMI SPRINGS UNIT AGREEMENT

Table of Contents

RECITALS

This document is the proposed Hemi Springs Unit Agreement (Agreement), executed by Alliance Exploration, LLC, ("Alliance") who is the sole Working Interest Owner of the leases proposed to be included in the unit.

Alliance submitted an application to the Alaska Department of Natural Resources (DNR) for approval of formation of the Hemi Springs Unit (Unit) out of state oil and gas leases.

DNR may approve unitization of state oil and gas leases when it is necessary or advisable in the public interest.

DNR's decision on whether to approve formation of the Unit will be set forth in a separate appealable DNR decision.

ARTICLE 1: Purpose and Scope of Agreement

1.1. In consideration of the mutual promises in this Agreement, the Alliance commits its interests in the Unit Area defined in Exhibit A and depicted in Exhibit B to this Agreement, subject to (1) all state statutes and regulations currently in effect or enacted, and insofar as constitutionally permissible, all statutes and regulations promulgated after the effective date of this Agreement; (2) the terms of this Agreement; and (3) DNR's authority to manage state oil and gas resources and to resolve disputes by administrative decision and appeal as provided in 11 AAC 83.374.

1.2. The purpose of this Agreement is to conserve natural resources by maximizing the efficient and timely production of oil and gas resources from the leases and working interests committed to the Unit and minimizing the adverse impacts to the surface estate and other resources from development.

1.3. This Agreement is effective as of the Effective Date and automatically expires five years from the Effective Date as provided in 11 AAC 83.336.

1.4. Alliance acknowledges that DNR is not a Party to this agreement but is instead the agency authorized by Alaska law to approve formation of a unit including state oil and gas leases when it is necessary and advisable in the public interest to explore, develop, and produce state oil and gas resources.

ARTICLE 2: Definitions

2.1. **Alaska Oil and Gas Conservation Commission** (AOGCC) means the independent quasi-judicial agency of the State of Alaska established by the Alaska Oil and Gas Conservation Act, Alaska Statute 31.05.

2 2 **Commissioner** means the Commissioner of the Department of Natural Resources, State of Alaska, or the Commissioner's authorized representative.

2.3. **Effective Date** means 12:01 a.m. on the date identified as the effective date in the Commissioner's approval of the unit, and if no date is specified, the date of the unit approval decision.

2.4. **Lease or Leases** means one or more oil and gas leases subject to this Agreement.

2.5. **Participating Area** means all Unit Tracts and parts of Unit Tracts established under the provisions of Article 10 of this Agreement to allocate Unitized Substances produced from a reservoir.

2.6. **Participating Area Expense** means all costs, expenses, or indebtedness incurred by the Unit Operator under this Agreement for or on account of production from or operations in a Participating Area and allocated solely to the Unit Tracts in that Participating Area.

2.7. **Royalty Interest** means the State's right to a share of production from the Unitized Area. It does not include an overriding royalty interest, which is a nonpossessory interest in oil and gas produced at the surface, free of the expense of production, that is derived from a Working Interest, but is not connected to ownership of the land or minerals. Overriding Royalty Interest owners are not proper parties to this Unit Agreement, nor do they have any rights to enforce the terms of this Unit Agreement.

2.8. **State** means the State of Alaska.

2.9. **Sustained Unit Production** means continuing production of Unitized Substances from a Unit Well in the Unit Area into production facilities and transportation from the unit Area to market, excluding temporary production for initial testing, evaluation, or pilot production purposes.

2 10. **Unit Area** means the lands subject to this Agreement, described in Exhibit A and shown in Exhibit B to this Agreement.

2.11. **Unit Expense** means all costs, expenses, or indebtedness incurred by the Unit Operator under this Agreement for or on account of production from or operations in the Unit.

2.12. **Unit Operating Agreement** means any and all agreements entered into by the Unit Operator and the Working Interest Owners, as described in Article 8 of this Agreement.

2.13. **Unit Operations** means all operations conducted under this Agreement in accordance with a Unit plan of operations.

2.14. **Unit Operator** means the party designated by the Working Interest Owners and approved by the Commissioner to conduct Unit Operations.

2.15. **Unit Plan** means a unit plan of exploration or plan of development as described in Article 9 of this Agreement.

2.16. **Unit Tract** means each separate parcel of land that is described in Exhibit A and given a Unit Tract number.

2.17. **Tract Participation** means the percentage of Unitized Substances and costs allocated to a Unit Tract in a Participating Area.

2.18. **Unit Well** means a well drilled within the Unit Area after the effective date of this Agreement unless specifically authorized by the Commissioner.

2.19. **Unitized Substances** means all oil, gas, and associated substances produced from the Unit Area.

2.20. **Working Interest** means the interest held in lands by virtue of a Lease under which the owner of the interest is vested with the right to explore for, develop, and produce minerals. The right delegated to a Unit Operator by a Unit Agreement is not a working interest.

ARTICLE 3: Exhibits and copies of the agreement

3.1 The Unit Operator will provide the following exhibits to DNR:

3.1.1. Exhibits A, B, and G as part of the Unit Agreement when the unit formation application is filed and whenever there is a change to the Unit Area or in interests committed to the unit.

3.1.2. Exhibit F as part of the Unit Agreement if the Unit Area includes or is proposed to include one or more net profit share leases.

3.1.3 Exhibits C, D, E, and F when a Participating Area application is submitted for approval, and upon approval of the Participating Area, they become part of this Agreement.

3.1.4. Revised Exhibits within 30 days of the information in an Exhibit no longer being accurate, a DNR decision affecting the information in an Exhibit, or a request from DNR for revised Exhibits. Events requiring revised Exhibits include, but are not limited to, expansion or contraction of the Unit Area, expansion or contraction of a Participating Area, changes to Tract Participation, and changes to working interest in Leases.

3.2. Exhibit A is a table that identifies and describes each Unit Tract, and displays the Unit Tract numbers, legal descriptions, lease numbers, Working Interest ownership, Royalty Interest ownership, and the applicable royalty and net profit share rates applicable to each Unit Tract.

3.3. Exhibit B is a map that shows the boundary lines of the Unit Area and of each Unit Tract, identified by Unit Tract number and lease number.

3.4. Exhibit C is comprised of a table for each Participating Area that displays the Unit Tract numbers, legal descriptions, lease numbers, Working Interest ownership, Royalty Interest ownership, and the percentage of Unitized Substances allocated to each (Tract Participation). Exhibit C must include a separate table for each Participating Area. Exhibit C and any revisions to Exhibit C are not effective until approved by DNR.

3 5. Exhibit D is comprised of a map for each Participating Area. Each Exhibit D map must show the boundary lines of the Unit Area, the Participating Area, and the Unit Tracts in that Participating Area identified by Unit Tract number and lease number.

3.6. Exhibit E is comprised of a table for each Participating Area that displays the allocation of Participating Area Expense to each Unit Tract in the Participating Area, identified by Unit Tract number and Lease number. Exhibits must include a separate table for each Participating Area in the Unit Area.

3.7. Exhibit F is a table that displays the allocation of Unit Expense to each Unit Tract in the Unit Area, identified by Unit Tract number and lease number. Exhibit F and any revisions to Exhibit F are not effective until approved by DNR.

3.8. Exhibit G is a Unit Plan for the Unit. Subsequent Unit Plans are part of this Agreement, but do not need to be labelled as a revised Exhibit G.

3.9. At least one copy of this Agreement will be filed with DNR, Division of Oil and Gas in Anchorage, Alaska and one copy will be filed with the AOGCC.

ARTICLE 4: Creation and Effect of Unit

4 1. All working interests in and to the lands described in Exhibit A and shown in Exhibit B are subject to this Agreement.

4.2. The provisions of a Lease committed to this Agreement and of any other agreement regarding that Lease are modified to conform to the provisions of this Agreement and to statutes and regulations regarding oil and gas leases and units existing on the Effective Date of this Agreement or enacted thereafter.

4.3. This Agreement does not transfer title to any Lease.

4.4. All data, information, and interpretations determined by DNR to be necessary for the administration of the Unit or for the performance of DNR responsibilities under Alaska law will be submitted to DNR by the Unit Operator or Working Interest Owners, or both, upon DNR written request. Upon request, DNR will keep confidential all such data and information to the extent it is entitled to confidentiality protection under applicable law.

ARTICLE 5: Designation of Unit Operator

5.1. Allianceis designated as the Unit Operator until such time, if any, that a successor unit operator is designated and approved by DNR. Alliance accepts the rights, duties, and obligations of the Unit Operator including to diligently conduct Unit Operations and to explore, develop, and produce the Unit Area.

5.2. Except as otherwise provided in this Agreement, and subject to the terms and conditions of an approved Unit Plan and plan of operations, the rights and obligations of the Working Interest Owners to conduct operations to explore for, develop, and produce the Unit Area are delegated to and will be exercised by the Unit Operator. This delegation does not relieve a Working Interest Owner of the obligation to comply with all Lease terms. The Unit Operator will comply with all notification requirements of the Leases, this Agreement, the Unit Operating Agreement, and applicable statutes or regulations.

5.3. The Unit Operator will minimize and consolidate surface facilities to minimize surface impacts.

5.4. With the approval of DNR and the AOGCC, any Working Interest Owner is entitled to drill and operate a well on its Lease when the Unit Operator declines to drill that well. The Working Interest Owner must comply with all applicable statutory, regulatory, and contractual obligations for drilling or operating a well.

5.5. A Working Interest Owner who assigns a working interest in a Lease that is subject to this Agreement is responsible for notifying the Unit Operator of DNR approval of the assignment within 15 days of the approval.

ARTICLE 6: Resignation or Removal of Unit Operator

6.1. The Unit Operator may resign at any time, but the resignation is not effective until DNR approves a successor Unit Operator.

6.2. The Unit Operator may be removed by DNR for failure to perform the required duties and obligations set forth in the Agreement. The removal will not be effective until DNR gives the Unit Operator notice and an opportunity to be heard and DNR approves a successor Unit Operator.

6.3. The Unit Operator may be removed by a majority vote of the Working Interests Owners in the Unit. The removal is not effective until the Working Interest Owners give DNR, the Unit Operator, and all Parties written notice of the removal and DNR approves a successor Unit Operator.

6.4. The resignation or removal of the Unit Operator will not release it from liability for any failure to meet obligations that accrued before the effective date of the resignation or removal.

6.5. When the resignation or removal of the Unit Operator becomes effective, the Unit Operator will relinquish possession of all unit equipment, artificial islands, wells, installations, devices, records, and any other assets used for conducting Unit Operations, whether or not located in the Unit Area, to the successor Unit Operator.

6.6. If the Unit Operator has a Working Interest in one or more leases committed to the unit, its obligations as a Working Interest Owner continue notwithstanding resignation or removal as Unit Operator.

ARTICLE 7: Successor Unit Operator

7.1. A proposed successor Unit Operator will accept all rights, duties, and obligations of a Unit Operator in writing before it will be considered for approval by DNR.

7.2. If a successor Unit Operator that is satisfactory to DNR has not been proposed within 30 days of notice of the resignation or removal of a Unit Operator, DNR may declare this Agreement terminated.

ARTICLE 8: Unit Operating Agreement

8.1. The Unit Operating Agreement is an agreement between the unit Working Interest Owners regarding voting mechanisms, operational details, and non-Participating Area unit cost allocations for implementation of the Unit Agreement. It is not binding on DNR. The Unit Agreement, lease terms, statutes, and regulations control in the event of a conflict with the Unit Operating Agreement.

8.2. The unit applicant will file an executed copy of the Unit Operating Agreement with DNR as part of the application to form a unit. Amendments to the Unit Operating Agreement, and all other agreements between the Working Interest Owners that affect the rights, duties, and obligations of some or all of the Parties to this Agreement, must also be filed with DNR within 30 days of execution and at least 30 days before their effective dates.

8.3. Allocations of Unit Expense, Participating Area Expense, and unit production will be consistent with Exhibits C, E, and F of this Agreement including for the purpose of determining, settling, and paying royalties and net profit share payments. Exhibits C, E, and F of this Agreement must be approved by DNR before they take effect. Original or revised conforming Exhibits C, E, and F will be submitted to DNR within 30 days of any change in the division of interest or allocation formula establishing or revising the allocation of production and costs in a Participating Area.

ARTICLE 9: Plans of Exploration, Development, and Operations

9.1. A Unit Plan must comply with 11 AAC 83.341 or 11 AAC 83.343, depending on whether it is a plan of exploration or plan of development.

9.2. A proposed Unit Plan is not effective until approved by DNR and will remain in effect until the date specified by DNR in the approval.

9.3. Approved Unit Plans, including any updates or amendments to Unit Plans, are part of this Agreement.

9.4. The Unit Operator will maintain an approved Unit Plan at all times. Failure to do so is cause for default.

9.5 The Unit Operator may explore, develop, or produce in the Unit Area only in accordance with an approved Unit Plan. Failure to comply with an approved Unit Plan is cause for default.

9.6. Before beginning operations on or in the Unit Area, the Unit Operator must obtain approval of its Unit Plan, a plan of operations, and any other required state, federal, or local permits and approvals. A plan of operations must be consistent with the mitigation measures set forth in the most recent state areawide lease sale best interest finding for the region that includes the Unit Area as of the time the plan of operations are submitted. An amendment to a plan of operations must be consistent with the mitigation measures in the most recent state areawide lease sale best interest finding as of the time of the amendment submittal.

9.7. The Unit Operator will give DNR written notice before beginning testing, evaluation, or pilot production from a well in the Unit Area.

9.8. After Sustained Unit Production in Paying Quantities begins, the Operator will maintain production with lapses no longer than 90 days. The lapse may be longer if a suspension of operations or production has been ordered or approved by the Commissioner. An unapproved lapse in Sustained Unit Production of more than 90 days is cause for default.

9.9. If production from a Participating Area, but not the Unit as a whole, ceases and is not resumed within 90 days, then within 120 days of ceasing production from that Participating Area, the Operator will submit a plan of operations amendment that sets forth a rehabilitation plan for that Participating Area. The rehabilitation plan may address any continued use of improvements in the Participating Area for Unit Operations.

9.10. Unit Production will be maintained. If production should production cease, the Operator will progress diligent operations to restore Unit Production with lapses of no more than 90 days.

9 11. After giving written notice to the Unit Operator and an opportunity to be heard, DNR may require the Unit Operator to modify from time-to-time, the rate of prospecting and development and the quantity and rate of production.

ARTICLE 10: Participating Areas and allocation of production

10.1. The Unit Operator will submit a request for approval of a proposed Participating Area to DNR for approval 90 days before the commencement of Sustained Unit Production from the proposed Participating Area.

10.2. A proposed Participating Area must be supported by an approved Unit Plan committing to Sustained Unit Production.

10.3. Unless another date is established by DNR, the effective date of a Participating Area will be no later than the date of first Sustained Unit Production.

10.4. Unitized Substance produced from one Participating Area (originating Participating Area) may be injected into another unit Participating Area (receiving Participating Area) for repressuring, recycling, storage, enhanced recovery, or other purposes only if DNR has approved the operation. The State will be paid royalty upon production from the originating Participating Area unless DNR approves payment of royalties when the Unitized Substances injected are produced and sold from the receiving Participating Area under the following conditions:

10.4.1. The first Unitized Substances produced and sold from the receiving Participating Area will be considered to have been the injected Unitized Substances until a volume of Unitized Substances equal to the volume of injected Unitized Substances is produced and sold from the receiving Participating Area.

10.4.2. All Unitized Substances produced and sold from the receiving Participating Area that is considered to have been injected will be allocated back to the originating Participating Area.

10.4.3. The Unit Operator will provide monthly reports to DNR of the volumes transferred during the preceding month; and

10.4.4. The Working Interest Owners will pay royalties on injected substances produced and sold from a receiving Participating Area as if those injected substances were produced and sold from the originating Participating Area when they were produced from the receiving Participating Area.

10.5. The Commissioner's approval must be obtained for the proposed recovery rate and commencement date for recovery before any substance is injected within the Unit Area.

10.6. Production and costs will be allocated under 11 AAC 83.371 and any successor regulation. The Unit Operator will submit a proposed allocation plan, with supporting data, with the application to form a Participating Area. The allocation plan must be revised whenever a Participating Area is expanded or contracted.

10.7. The Working Interest Owners will pay royalties for each Unit Tract in proportion to each Working Interest Owner's ownership in that Unit Tract. The amount of Unitized Substances allocated to each Unit Tract will be deemed to have been produced from that Unit Tract.

10.8. If the Working Interest Owners allocate Unitized Substances, Participating Area Expense, or Unit Expense differently than described in Exhibits C, E, and F, that allocation will not be binding on the State or effective for determining royalty or net profit share payments. The Unit Operator will submit any allocation that is different than the allocations required in Exhibits C, E, or F to the Commissioner under 11 AAC 83.371(b) for the State's information within 10 days of its effective date with a statement explaining the reason for the different allocation.

10.9. Royalties will not be due or payable to the State for the portion of Unitized Substances unavoidably lost or used in the Unit Area for development and production in accordance with prudent industry practices. Gas that is flared for any reason other than safety purposes as allowed by the AOGCC will not be deemed to be unavoidably lost and the Working Interest Owners will pay royalties for such flared gas as if it had been produced. This exemption does not apply to Unitized Substances that are sold, traded, or assigned, including sales, transactions, or assignments among the Working Interest Owners.

ARTICLE 11: Offset Wells

11.1. Whenever there is a risk of drainage from production operations on property outside the Unit Area, the Unit Operator will drill wells to protect the State from loss by reason of drainage. If oil or gas is produced in Paying Quantities, as defined in 11 AAC 83.105, for 30 consecutive days from a gas well within 1,500 feet of the Unit or an oil well within 500 feet of the Unit, the Commissioner may issue a written demand to drill. The Unit Operator will have an opportunity to be heard on the demand. If the Commissioner then finds that production from a well outside the Unit is draining the Unit Area, the Unit Operator will begin drilling operations for an offset well in the Unit Area within 30 days. In lieu of drilling a well required by this paragraph, the Working Interest Owners may compensate the State in full each month for the estimated loss of royalty through drainage in the amount determined by the Commissioner.

ARTICLE 12: Leases, Rentals, and Royalty Payments

12.1. The Working Interest Owners will pay rentals, royalty, and net profit share payments due under the Leases. Payments to the State must be made under 11 AAC 04.010 *et seq.*, 11 AAC 83.110, and 11 AAC 83.201 *et seq.*, and any successor regulations or statutes.

12.2. To the extent necessary, the royalty value, royalty in value, and royalty in kind provisions of state Leases committed to this agreement are amended to conform to the royalty value, royalty in value, and royalty in kind provisions of the lease attached to the state areawide

lease sale best interest finding for the region that includes the Unit Area that is most recent as of the effective date of this Agreement.

12.3. If a state Lease committed to this Agreement provides for a discovery royalty rate reduction for the first discovery of oil or gas, that lease is amended and that Lease provision will not apply to a well spudded after the Effective Date.

12.4. Each month, the Unit Operator will furnish a schedule to DNR specifying for the previous month the amount of Unitized and Non Unitized Substances: 1) produced; 2) consumed in development and production operations or unavoidably lost; 3) allocated to each unit tract; 4) allocated to each unit tract and delivered in-kind as royalty to the State; and 5) allocated to each Unit Tract for which royalty must be paid. The Unit Operator and Working Interest Owners will file all royalty and net profit share reports per 11 AAC 04.010 *et seq* If any of the leases subject to this Agreement require net profit share payments, the operator will also provide an updated schedule of development costs and file net profit share reports in accordance with 11 AAC 83.201 *et seq*.

12.5. Each Working Interest Owner will pay royalties and net profit share payments to the State as provided in the Lease and based on the production allocated to the Unit Tract and in accordance with 11 AAC 04.010 *et seq* and 11 AAC 83.201 *et seq*.

12.6. Royalties, whether paid in-kind or in-value, must be free and clear of all Lease expenses, unit expenses, and Participating Area Expenses including, but not limited to, separating, cleaning, dehydration, saltwater removal, processing, compression, pumping, manufacturing, preparing production for transportation off the Unit Area, and gathering and transportation costs incurred before the Unitized Substances are delivered to a common carrier. No lien for any expenses will attach to rentals or royalty or net profit share payments due on produced Unitized Substances. But royalty and net profit share will bear a proportionate part of any gas shrinkage that occurs during gas processing and blending.

12.7. Notwithstanding any contrary Lease term or regulation, all royalty deductions for transportation, including, but not limited to, marine, truck, and pipeline transportation, from the Unit Area to the point of sale are limited to the actual and reasonable costs incurred by the Working Interest Owners. Transportation deductions are only allowed for sales quality oil and after the oil has passed through a custody transfer meter approved by the AOGCC. The State reserves the right to audit these transportation deductions. These transportation costs must be determined by taking into account all tax benefits applicable to the transportation.

12.8. If the Unit Operator or Working Interest Owners comingle production from the Unit with production from other sources for processing, the Unit Operator and Working Interest Owners will provide DNR with a monthly statement that identifies the quality of oil or gas produced from the Unit.

12.9. Any unpaid, underpaid, or overpaid royalty or net profit share payment from state Leases committed to this Agreement will accrue interest starting from the month of production as provided in AS 38.05.135(d)-(e).

12.10. For each Participating Area, the Unit Operator will give DNR notice of the anticipated date for commencement of production at least six months before the commencement of Sustained Unit Production. Each month after the commencement of Sustained Unit Production, the Unit Operator will provide DNR a written estimate of unit production for the following ninety (90) days. DNR may take the State's royalty share of unit production in-kind. DNR will give the Unit Operator 90 days' written notice of the State's initial election to take all or a portion of its share of unit production in-kind. After taking has commenced, DNR may increase or decrease the amount of its royalty share taken in-kind after DNR gives the Unit Operator 90 days' written notice

12.10.1. DNR may elect to specify the Unit Tracts from which the State's royalty share of Unitized Substances taken in-kind are to be allocated. If the Commissioner does not specify any Unit Tracts in the written notice to the Unit Operator, the Unitized Substances taken in-kind will be allocated to all Unit Tracts in accordance with the Tract Participation shown on Exhibit C to this Agreement.

12.10.2. The Unit Operator will deliver the State's in-kind royalty to the custody transfer meter at a common carrier pipeline capable of carrying those substances, or at any other mutually agreeable place. DNR may designate any individual, firm, or corporation to accept delivery.

12.10.3. The State's share of Unitized Substances taken in-kind will be delivered to the point of sale in sales and common carrier pipeline quality condition. If a Working Interest Owner processes its share of the Unitized Substances to separate, extract, or remove liquids, DNR may require the Working Interest Owner to also process the State's share of Unitized Substances being taken in-kind in the same manner without cost to the State. The State, or its buyer, will only pay tariffed transportation costs and shrinkage of the volume of gas resulting from processing.

12.10.4. Each Working Interest Owner will furnish storage in or near the Unit Area for the State's royalty share of Unitized Substances to the same extent that the Working Interest Owner provides storage for its own share of Unitized Substances.

12.11 If a purchaser of the State's royalty taken in-kind does not take delivery, DNR may elect, without penalty, to underlift for up to six months following the failed delivery. The State may underlift all or a portion of its royalty share. The State's right to underlift is limited to the portion of its royalty share taken in-kind that the purchaser did not take delivery of or what is necessary to meet an emergency condition. DNR will give the unit operator written notice 30 days before the first day of the month in which the State will accept the

underlifted royalty share of Unitized Substances. The State may correct an underlift of its royalty share at a daily rate not exceeding 25 percent of its royalty share of daily production, unless otherwise agreed.

12.12. The Unit Operator will maintain records, and will keep and have in its possession, books and records including expense records, of all exploration, development, production, and disposition of all Unitized Substances and substances from outside the Unit Area that are injected into the unit, Unitized Substances that are injected outside the unit, and substances injected into a Participating Area that were produced outside the Participating Area. Each Working Interest Owner will maintain records of the disposition of its portion of the Unitized Substances, substances produced from outside the unit that are injected into the Unit Area, and substances produced from outside a participating area that were injected into the Participating Area including sales prices, volumes, and purchasers. The Unit Operator or Working Interest Owner must provide DNR with copies of the records upon request. The books and records may be provided in a mutually agreeable electronic format. The books and records must employ methods and techniques that will ensure the most accurate figures reasonably available. The Unit Operator and the Working Interest Owners will use generally accepted and internally consistent accounting procedures, except when it would be inconsistent with net profit share lease regulations.

12.13. The Working Interest Owners acknowledge that when they provide records for DNR, either directly to DNR or indirectly through another State agency, DNR may disclose those records in an official investigation or proceeding, including an audit to which the records are relevant, in accordance with AS 38.05.036.

12.14. If a Lease requires payment of minimum royalty, the Lease is amended to delete that minimum royalty obligation.

ARTICLE 13: Unit Expansion and Contraction

13.1. Upon its own election or at the direction of DNR, the Unit Operator may apply to expand the Unit Area to include additional lands that include all or part of a reservoir or potential hydrocarbon accumulation or that facilitate production.

13.2. A Unit expansion is not effective until approved by DNR.

13.3. DNR will contract the Unit as provided in 11 AAC 83.356.

13.4. Within 30 days after approval by DNR of any expansion or contraction of the Unit Area, the Unit Operator will submit revised Exhibits A and B to DNR.

ARTICLE 14: Unit and Lease Termination

14.1. A Lease or portion of a Lease contracted out of the Unit Area may be maintained only in accordance with state law, the Lease, and this Agreement.

14.2. This Agreement may be terminated by an affirmative vote of the Working Interest Owners, subject to DNR approval.

14.3. This agreement automatically expires and ceases to exist five years from the Effective Date of this Agreement, unless extended pursuant to 11 AAC 83.336. The Effective Date is not subject to change, regardless of any change to the Unit Area or amendment to this Agreement.

14.4. Each Lease committed to this Agreement is extended as provided in the Lease.

14.5. Each non-producing Lease committed to this Agreement on the day that this Agreement expires or terminates, will remain in force if there is a well capable of producing oil or gas in paying quantities, or for an extension period of 90 days, or any longer period approved by DNR, and for so long thereafter as the Working Interest Owners are actively drilling or redrilling or producing from the Lease is paying quantities.

14.6. Upon the expiration or termination of state Leases committed to this Agreement, the Working Interest Owners will continue to have rights as set forth in the Lease, including rights to access the Lease area for purposes of well abandonment and dismantlement, removal, and restoration. Notwithstanding any contrary Lease terms, within 120 days after expiration or termination of this Agreement, the Working Interest Owners will provide DNR with a proposed rehabilitation plan for any Unit Area Leases that are no longer in force, including (a) the location of all improvements; (b) plans for dismantling and removing each improvement and rehabilitating the area of the improvement; and (c) any requests to leave an improvement in place. To ensure that the Working Interest Owners return the land in good condition, DNR will approve or disapprove the rehabilitation plan and determine which, if any, improvements, such as roads, pads, and wells, may be left intact and the Working Interest Owners relieved of further responsibility for its maintenance, repair, abandonment, and rehabilitation. Returning the land in good condition includes, but is not limited to, compliance with an approved rehabilitation plan. The Working Interest Owners, or the Unit Operator on behalf of the Working Interest Owners, may at any time within a period of one year after the termination of Unit Area Leases, or any extension of that period as may be granted by DNR, remove from the Unit Area all machinery, equipment, tools, and materials. Upon the expiration of that period and at the option of DNR, any machinery, equipment, tools, materials, and improvements that the Unit Operator or Working Interest Owners have not removed from the Unit Area may, at the election of the State, become the property of the State, or be removed by the State at the expense of the Working Interest Owners, or DNR may issue an order requiring the Working Interest Owners to remove any machinery, equipment, tools, materials, and improvements within 90 days.

ARTICLE 15: Counterparts

15.1. The signing of counterparts of this Agreement will have the same effect as if all parties had signed a single original of this Agreement.

ARTICLE 16: Laws and Regulations

16.1. This Agreement and all state Leases subject to this Agreement are subject to all applicable state and federal statutes and regulations in effect on the Effective Date of this Agreement, and, insofar as constitutionally permissible, to all statutes and regulations or amendments to statutes and regulations placed in effect after the Effective Date of this Agreement , without regard to whether this Agreement references a particular statute or regulation. A reference to a statute or regulation in this Agreement includes any change in that statute or regulation whether by amendment, repeal and replacement, or other means. This Agreement does not limit the power of the State of Alaska or the United States of America to enact and enforce legislation or to promulgate and enforce regulations affecting, directly or indirectly, the activities of the parties to this Agreement or the value of interests held under this Agreement. In case of conflicting provisions, statutes and regulations take precedence over this Agreement.

ARTICLE 17: Appearances and Notices

17.1. If the State gives the Unit Operator a notice or order relating to this Agreement, it will be deemed given to all Working Interest Owners. All notices required by this Agreement will be given in writing and delivered personally or by United States mail to the Unit Operator at the address listed below. All notices actually received will also be deemed properly given. The Unit Operator will give 30 days' written notice to the State and the other Working Interest Owners of any change in its notice address. The State will give 30 days' written notice to the Unit Operator of any change in its notice address.

Address of the Unit Operator:

Alliance Exploration LLC
634 Main Street, Suite 300
PO Box 876
East Aurora, NY 14052

Address of the State:

Commissioner, Department of Natural Resources
550 West Seventh Avenue, Suite 1400
Anchorage, Alaska 99501-3554

with a copy to:

Director, Division of Oil and Gas
550 West Seventh Avenue, Suite 1100
Anchorage, Alaska 99501-3560

ARTICLE 18: Default

18.1. Failure to comply with any material term of this Agreement, including Unit Plans, plans of operations, and applicable statutes and regulations, is a default of this Agreement, without regard to any specific references to default in this Agreement.

18.2. The failure to comply with a Unit Plan or other aspect of this Agreement because of force majeure, as defined in 11 AAC 83.395, is not a default, so long as the Unit Operator is working diligently to overcome the force majeure condition. Failure to obtain a permit or other approval from a state, federal, or local agency or a landowner is not force majeure.

18.3. A seasonal restriction on operations or production or other condition required in the Lease is not a suspension of operations or production required by law or force majeure.

[signature page follows]

IN WITNESS OF THE FOREGOING, the parties have executed this Unit Agreement on the dates opposite their respective signatures.

UNIT OPERATOR

By: _____ Date: 06/06/2017_____

Alliance Exploration LLC_____

Samuel Nappi, President _____

(Company Name, signatory's printed name and title)

STATE OF NEW YORK)
)ss.
ONONDAGA COUNTY)

This certifies that on the 6TH of JUNE, 2017, before me, a notary public in and for the State of NEW YORK, duly commissioned and sworn, personally appeared SAMUEL NAPPI _____, known to me to be the person described in, and who executed the foregoing agreement, who then after being duly sworn according to law, acknowledged to me under oath that he executed same freely and voluntarily for the uses and purposes therein mentioned.

WITNESS my hand and official seal the day and year in this certificate first above written.

Jacob A. Grubka
NOTARY PUBLIC in and for NEW YORK

My Commission Expires: 7-27-2021

JACOB A GRUBKA
Notary Public, State of New York
No. 01GR6209573
Qualified in Onondaga County
Commission Expires July 27, 2021

WORKING INTEREST OWNER

By: _____ Date: 06/06/2017_____

Alliance Exploration LLC_____

Samuel Nappi, President _____

(Company Name, signatory's printed name and title)

STATE OF NEW YORK)
)ss.
ONONDAGA COUNTY)

This certifies that on the 6TH of JUNE, 2017, before me, a notary public in and for the State of NEW YORK, duly commissioned and sworn, personally appeared SAMUEL NAPPI _____, known to me to be the person described in, and who executed the foregoing agreement, who then after being duly sworn according to law, acknowledged to me under oath that he executed same freely and voluntarily for the uses and purposes therein mentioned.

WITNESS my hand and official seal the day and year in this certificate first above written.

_____
NOTARY PUBLIC in and for NEW YORK

My Commission Expires: 7-27-2021

JACOB A GRUBKA
Notary Public, State of New York
No. 01GR6209573
Qualified in Onondaga County
Commission Expires July 27, ~~2023~~ 2021

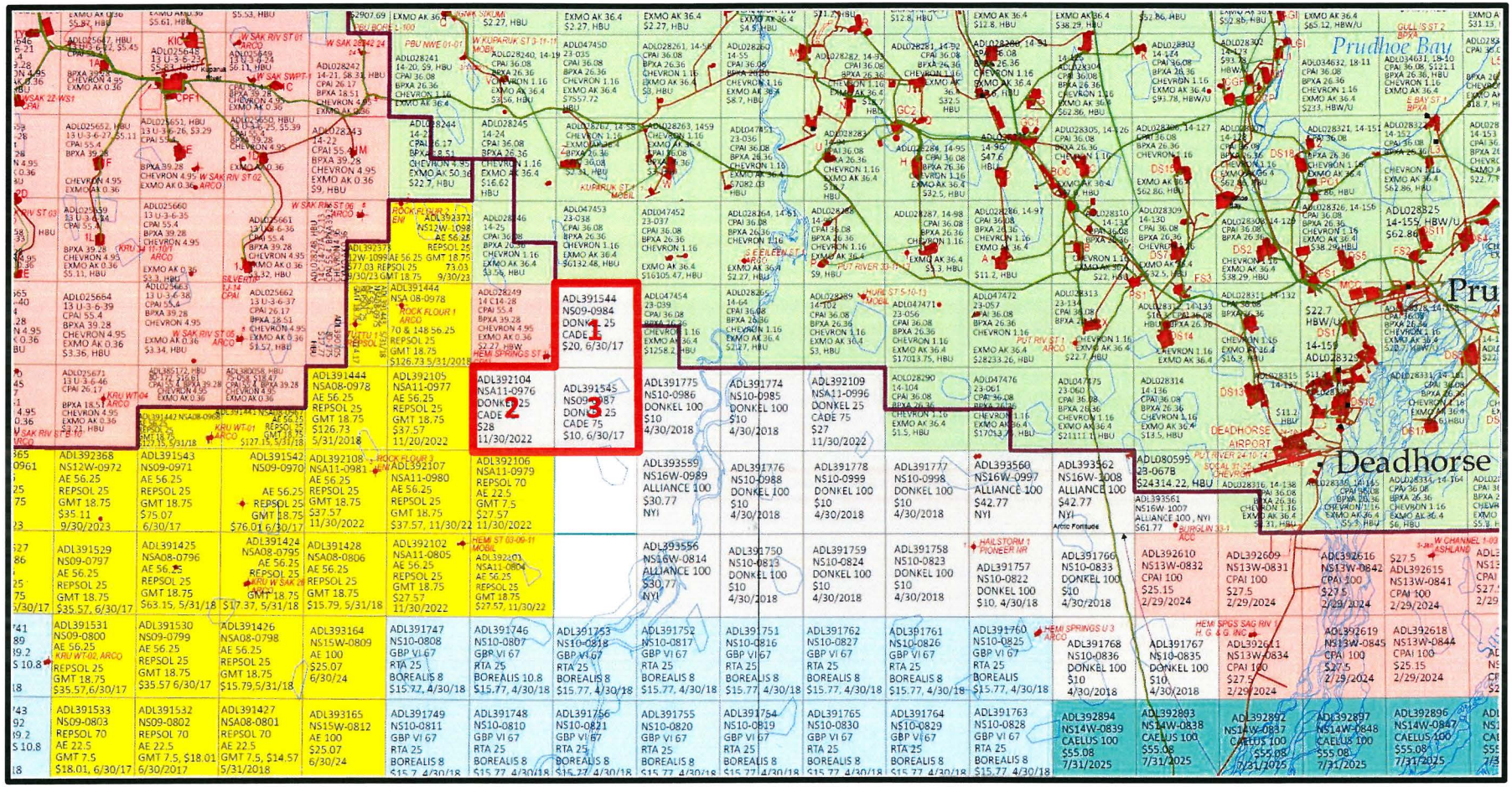
EXHIBIT A

UNIT AGREEMENT
OWNERSHIP INFORMATION

Unit Tract No.	Lease No.	Sale Tract No. & Legal Description	Acreage	Lessee(s) of Record	Share of Production		
					Basic Royalty Owner & Percentage	ORRI Owner & Percentage	Working Interest Owner & Percentage
1	ADL 391544	Tract 984 T. 010N., R. 012E., Tract A, Umiat Meridian, Alaska. Section 5, Unsurveyed, All, 640.00 acres; Section 6, Unsurveyed, All, 609.00 acres; Section 7, Unsurveyed, All, including the beds of the unnamed lakes, 612.00 acres; Section 8, Unsurveyed, All, including the beds of the unnamed lakes, 640.00 acres; This Tract (984) contains 2,501.00 acres, more or less.	2,501.00	Alliance Exploration LLC	State of Alaska, DNR DOG 16.666670%	Samuel H. Cade – 1.125% Daniel K. Donkel - .375%	Alliance Exploration, LLC 100%
2	ADL 392104	Tract 976 T. 010N., R. 011E., Umiat Meridian, Alaska. Section 13, Surveyed by Protraction, All, 640.00 acres; Section 14, Surveyed by Protraction, All, 640.00 acres; Section 23, Surveyed by Protraction, All, 640.00 acres; Section 24, Surveyed by Protraction, All, 640.00 acres; This Tract (976) contains 2,560.00 acres, more or less.	2560.00	Alliance Exploration LLC	State of Alaska, DNR DOG 16.666670%	Samuel H. Cade – 1.125% Daniel K. Donkel - .375%	Alliance Exploration, LLC 100%

Unit Tract No.	Lease No.	Sale Tract No. & Legal Description	Acreage	Lessee(s) of Record	Share of Production		
					Basic Royalty Owner & Percentage	ORRI Owner & Percentage	Working Interest Owner & Percentage
3	ADL 391545	Tract 987 T. 010N., R. 012E., Tract A, Umiat Meridian, Alaska. Section 17, Unsurveyed, All, including the beds of the unnamed lakes, 640.00 acres; Section 18, Unsurveyed, All, including the beds of the unnamed lakes, 615.00 acres; Section 19, Unsurveyed, All, including the beds of the unnamed lakes, 617.00 acres; Section 20, Unsurveyed, All, including the beds of the unnamed lakes, 640.00 acres; This Tract (987) contains 2,512.00 acres, more or less.	2512.00	Alliance Exploration LLC	State of Alaska, DNR DOG 16.666670%	Samuel H. Cade – 1.125% Daniel K. Donkel - .375%	Alliance Exploration, LLC 100%
		TOTAL	**7,573 acres**				

Exhibit B - Base Map (Red outline proposed unit, red tract numbers , lease designation Mapmakers Alaska)



Hemi Springs Unit Agreement

EXHIBIT "G"

INITIAL PLAN OF EXPLORATION

Based on 3D Seismic and nearby geologic well information, Alliance Exploration, LLC ("Alliance") has identified two prospective hydrocarbon reservoirs in the Hemi Springs Unit Area. The Primary target is a stratigraphic trap in the Kuparuk C unit as defined by an amplitude anomaly and a secondary target in the Ivishak Formation defined by structural high and fault trapping mechanisms. The proposed unit is composed of three tracts 100% owned by Alliance which comprise a total of 7,573 acres.

Pursuant to 11 AAC 83.341, Alliance seeks approval of an Initial Plan of Exploration with a two year term. A two well drilling program is proposed for the Initial Plan of Exploration of the Hemi Springs Unit area over a two year period. Alliance intends to drill the first well in Tract 2 (ADL 392104) on a seismic amplitude anomaly in the Kuparuk C unit. The second well will be drilled the following year depending on the results of the first well. The second well will be drilled on a Structural high in the Ivishak Formation bounded by a fault. The second well will also be in Tract 2.

The Hemi Springs Unit is comprised of three Tracts corresponding to State of Alaska leases shown below:

Hemi Springs Unit

a. Tract 1: ADL 391544: 2501 acres
b. Tract 2: ADL 392104: 2560 acres
c. Tract 3: ADL 391545: 2512 acres

The Unit Operator will submit to the division a second POE at least 60 days prior to the expiration of the initial POE. Given positive results of the first and second well, a second POE will be submitted providing a delineation drilling program to determine the extent and commercial viability of the hydrocarbon accumulation(s).

If the commercial viability of the hydrocarbon accumulation is determined, a full development program will be proposed and Alliance will move the reserves into production. A major part of the commercial viability of the project will hinge on the volume of the reserves and the cost of delivering hydrocarbons to the facilities. Whether Alliance decides to build its own facility or decides to go to another facility (e.g., Kuparuk or

Prudhoe) depends on the volume of production, processing fees, reasonable back-out costs, and lifting cost.

Alliance will perform the following initial plan of exploration to delineate the resources underlying the proposed Hemi Springs Unit if it is able to secure all necessary permits and governmental authorizations:

1. On or before March 31, 2018 the Unit Operator intends to commence operations to drill the first well in the Proposed Hemi Springs Unit that meets the following minimum requirement:
    a. Drill a straight pilot hole to the bottom of the Ivishak Formation equivalent to the Ivishak Formation as seen in the interval between 9,534 MD and 10,120 MD in the Hemi Springs State #1. In Tract 2 section 13.
    b. Log the well with LWD triple combo (Gamma Ray, Resistivity and Neutron/Density). The possibility of running wireline logging tools such as NMR, Sonic, Formation Pressure/Fluid sample and rotary cores will be determined during operations.
    c. Set a whipstock and drill a lateral to the south west in the Kuparuk C unit equivalent to the section between 7,196 MD and 7,246 MD in the Hemi Springs State #1. In tract 2 section 13.
    d. Geosteer the lateral with MWD, Gamma Ray, Azimuthal Resistivity and Neutron/Density.
    e. If log evaluation indicates prospective hydrocarbon zones test and complete zones in the lateral.

2. On or before March 31, 2019 the Unit Operator intends to commence operations to drill the second well in the Proposed Hemi Springs Unit that meets the following minimum requirement:
    a. Drill a straight pilot hole to the bottom of the Ivishak Formation equivalent to the Ivishak Formation as seen in the interval between 9,534 MD and 10,120 MD in the Hemi Springs State #1. In tract 2 section 14.
    b. Log the well with LWD triple combo (Gamma Ray, Resistivity and Neutron/Density). The possibility of running wireline logging tools such as NMR, Sonic, Formation Pressure/Fluid sample and rotary cores will be determined during operations.

c. After evaluation of the data collected in (b) a decision will be made to test the Ivishak or continue to drill a lateral in the Kuparuk C unit. Either option is exclusive of the other.
d. Set a whipstock and drill a lateral to the north east in the Kuparuk C unit equivalent to the section between 7,196 MD and 7,246 MD in the Hemi Springs State #1. In tract 2 and with bottom hole location in section 13.
e. Geosteer the lateral with MWD, Gamma Ray, Azimuthal Resistivity and Neutron/Density.
f. If log evaluation indicates prospective hydrocarbon zones test and complete zones in the lateral.

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

June 5, 2017,
year

OPERATOR Alliance Exploration, LLC

CONTRACT AREA Hemi Springs Unit

COUNTY ~~OR PARISH OF~~ North Slope Borough, STATE OF Alaska

A.A.P.L. NO. 610 - 1989

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

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

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Alliance Exploration, 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 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.

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

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

E. The terms "Drilling Party" and "Consenting Party" shall mean a 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 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

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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.

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.

EXHIBITS

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

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

(1) Description of lands subject to this agreement,

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

(3) Parties to agreement with addresses and telephone numbers for notice purposes,

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

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

(6) Burdens on production.

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

_____ C. Exhibit "C," Accounting Procedure.

_____ D. Exhibit "D," Insurance.

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

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

_____ G. Exhibit "G," Tax Partnership.

_____ H. Other: _____

If any provision of any exhibit, except Exhibits "E," "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.

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ARTICLE III.

INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of Oil and Gas Lease attached hereto as Exhibit "B," and the owner thereof shall be deemed to own both 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, _____ 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 by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in procuring abstracts, fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in royalty opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."

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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 accepted by all of the 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 in proportion to their respective interests reflected on Exhibit "A", and,

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

3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because express or implied covenants have not been performed (other than performance which requires only the payment of money), and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.

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

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ARTICLE V.

OPERATOR

A. Designation and Responsibilities of Operator:

Alliance Exploration 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 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 Operator, and all such employees or contractors shall be the employees or contractors of Operator.

D. Rights and Duties of Operator:

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

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

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

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

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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:

On or before the _____ day of _____, _____, Operator shall commence the drilling of the Initial Well at the following location:

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

The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1. as to participation in Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.

B. Subsequent Operations:

1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone

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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 of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be contractually committed to participate therein provided such operations are commenced within the time period hereafter set forth, and Operator shall, no later than ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the 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 of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a

Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a drilling rig is on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a total of forty-eight (48) hours (exclusive 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.

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,

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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) _____% 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) _____% 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 _____% 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 against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

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

3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking,

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

In the event that notice for a Sidetracking 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 (ii) the objective depth or Zone 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 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

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to the drilling of such well to its Initial Objective without the consent of the other Consenting Parties as provided in Article VI.F.

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

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

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

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

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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.

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: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and equipping of the well, including necessary tankage and/or surface facilities.
- ☐ Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results thereof 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 of Saturday, Sunday and legal holidays) in which to elect by delivery of notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the Completion attempt; provided, that Article VI.B.6. shall control in the case of conflicting Completion proposals. If one or more, but less than all of the parties, 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.

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,

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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 _____ _____ Dollars ($_____) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of _____ Dollars ($_____). Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively be those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least _____% of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

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plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after 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 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) days of delivery of notice of proposed abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) 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." 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 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

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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 consent of parties bearing _____% of the costs of such operation; provided, however, that in the event granite or other practically impenetrable substance or condition in the hole is encountered which renders further operations impractical, Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

G. Taking Production in Kind:

☐ **Option No. 1: Gas Balancing Agreement Attached**

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 expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

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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. 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 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.

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 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 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' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing agreement between the parties hereto, 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.

☐ **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)

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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.

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.

ARTICLE VII

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

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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

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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:

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

D. Defaults and Remedies:

If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered

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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.

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1. Suspension of Rights: Any party may 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:

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

Operator shall notify Non-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 IV.B.3.

F. Taxes:

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

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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 the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned shall similarly reflect such variances.

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

B. Renewal or Extension of Leases:

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

If some, but less than all, of the parties elect to participate in the purchase of a renewal or replacement Lease, it shall be owned

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

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

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

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

C. Acreage or Cash Contributions:

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

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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

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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 hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.

CLAIMS AND LAWSUITS

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

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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, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

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

ARTICLE XII.

NOTICES

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

ARTICLE XIII.

TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

- ☐ Option No. 1: So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.
- ☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in 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

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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 request of Operator, if Operator has satisfied all its financial obligations.

ARTICLE XIV.

COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or

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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.

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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

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

_____, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form Operating Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles _____, have been made to the form.

ATTEST OR WITNESS:

OPERATOR

_____

_____ By _____

_____

_____ Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

NON-OPERATORS

_____

_____ By _____

_____

_____ Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

_____

_____ By _____

_____

_____ Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

_____

_____ By _____

_____

_____ Type or print name

Title _____

Date _____

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Tax ID or S.S. No. _____

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ACKNOWLEDGMENTS

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

Individual acknowledgment:

State of _____)

) ss.

County of _____)

This instrument was acknowledged before me on

_____ by _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)

) ss.

County of _____)

This instrument was acknowledged before me on

_____ by _____ as

_____ of _____.

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

IN WITNESS WHEREOF, this agreement shall be effective as of the 8th day of June, 2017

Samuel Nappi, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form Operating Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles _____, have been made to the form

ATTEST OR WITNESS:

Jacob A. Thubka

OPERATOR

By Samuel Nappi

Samuel Nappi
Type or print name

Title President

Date 6/8/17

Tax ID or S.S. No. _____

NON-OPERATORS

_____

By _____

_____
Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

_____

By _____

_____
Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

_____

By _____

_____
Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

ACKNOWLEDGMENTS

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

Individual acknowledgment.

State of New York)

) ss.

County of Onondaga)

This instrument was acknowledged before me on

8th, June 2017 by Samuel Nappi

Jacob A Grubka

(Seal, if any)

JACOB A GRUBKA
Notary Public, State of New York
No. 01GR6209573
Qualified in Onondaga County
Commission Expires July 27, 2021

Title (and Rank) _____

My commission expires: 7-27-2021

Acknowledgment in representative capacity

State of _____)

) ss.

County of _____)

This instrument was acknowledged before me on

_____ by _____ as

_____ of _____

(Seal, if any)

_____

Title (and Rank) _____

My commission expires: _____