

FARMOUT AND JOINT DEVELOPMENT AGREEMENT

THIS FARMOUT AND JOINT DEVELOPMENT AGREEMENT ("Agreement") is made and entered into effective the 5th day of April, 2010, by and between ____, a Delaware corporation, whose mailing address is ____, (hereinafter called "Farmor"), and ____, a Delaware limited liability company, whose mailing address is ____, (hereinafter called "Farmee"), concerning Farmor's interest in certain oil and gas leases which are briefly described in Exhibit "1" insofar as the same cover the lands described in Exhibit "1" (hereinafter sometimes referred to as the "Lease Acreage"). Reference is made to said leases and to the records thereof for all the terms and conditions thereof.

WITNESSETH:

WHEREAS, Farmor desires to have the Lease Acreage tested for oil and gas production; and

WHEREAS, Farmee has expressed its willingness to make such test on the terms and conditions hereof; and

WHEREAS, the parties desire to establish an area of mutual interest which initially consists of the lands described in Exhibit "1".

NOW, THEREFORE, for and in consideration of the premises and the mutual promises and covenants herein contained to be kept and performed by the parties hereto and other good and valuable consideration, the receipt and adequacy of which are hereby confessed and acknowledged, the parties hereto do hereby agree as follows:

Article I. INITIAL TEST WELLS

A. Initial Well

Farmee agrees that on or before June 1, 2010, it will commence or cause to be commenced the actual drilling of a Horizontal Well for oil and/or gas (hereinafter sometimes referred to as the "Initial Test Well") at a location of Farmee's choice on Section ____, ____, County, Texas and that it will thereafter prosecute the drilling of the said well with due diligence to a depth sufficient to adequately test the Cleveland formation (hereinafter called the "Contract Depth"). Farmee shall use commercially reasonable efforts to drill and complete the Initial Test Well within ninety (90) days from commencement of actual drilling or, if a non-commercial well, it shall be properly plugged and abandoned which shall include the restoration of the premises as nearly as practicable to its original condition within sixty (60) days from the date of drilling rig release including, but not limited to the removal of all leasehold material and debris placed on said premises by Farmee and the plugging and abandonment of the property by filling and leveling the cellar and slush pits. All drilling, testing and equipping of the Initial Test Well through the tanks or pipeline connection, whichever the case may be, shall be performed at the sole cost, risk, and expense of Farmee. Thereafter such cost, risk and expense shall be shared between the parties proportionate to their respective working interest in such well as provided for in Article IV (a), and in accordance with the Operating Agreement referred to in Article XVI below. Provided however, if the Initial Test Well is a dry hole, all plugging and abandonment shall be performed at the sole cost, risk, and expense of Farmee. If Farmee fails to commence actual drilling of the Initial Test Well in accordance with the time period set forth in this Article I, then Farmee will be subject to the provisions of Article VIII. If the Initial Test Well is commenced, drilled and completed as a producing well or plugged and abandoned as a dry hole in accordance with this Agreement, Farmee shall earn an assignment of the Lease Acreage provided for in Article IV (a) below. As used in this Agreement, the term "Horizontal Well" shall mean a well containing a single lateral in which the wellbore deviates from approximate vertical orientation to

RECITAL: Chav #1 -
Acreage Affected
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also see p 15 re
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ARTs 1-3: Chav #2 -
Farmee's
obligation

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approximate horizontal orientation in order to drill within and test a specific geologic interval, utilizing deviation equipment, services and technology. The term "lateral" shall mean that portion of a wellbore that deviates from approximate vertical to approximate horizontal at an angle of greater than sixty (60) degrees. The lateral of the Initial Test Well shall be drilled horizontally within the Contract Depth a distance of at least two thousand feet (2,000') in order to meet the earning obligations under this agreement.

B. Short Lateral Test Well

In the event Farmee is unable to drill the Initial Test Well to full Contract Depth as provided in Article I A. due to encountering impenetrable substances or because of mechanical conditions making further drilling of the full 2,000' lateral impractical, then Farmee shall have the option to terminate its drilling operations and either plug and abandon the well or attempt a completion of the well at a lesser depth at its sole risk and expense. Article III shall apply if Farmee elects to plug and abandon the Initial Test Well.

If Farmee elects to attempt a completion in such Initial Test Well (hereinafter sometimes referred to as "Short Lateral Test Well"), then it shall provide Farmor with written notice of its proposed completion operations. If the proposed completion operations are unsuccessful, then Farmee shall plug and abandon such well in accordance with this agreement. If the completion of the Short Lateral Test Well results in a commercial producer of oil and/or gas, then the provisions of Article IV (c) shall apply.

Article II. ADDITIONAL WELLS

In the event the Initial Test Well, or the Short Lateral Test Well as provided in Article IV (c)(i), is commenced, drilled and completed as a producing well or the Initial Test Well is plugged and abandoned as a dry hole in accordance with this Agreement, Farmee shall have the right to commence the actual drilling of an additional Horizontal Well or Wells, at locations of Farmee's choice on any of the Lease Acreage. If Farmee desires to drill such an additional Horizontal Well or Wells, Farmee shall notify Farmor of the location, proposed depth, objective formation, proposed cost of the operation and the geological justification for the additional Horizontal Well or Wells, which said justification shall include isopach and structural contour maps. Farmor shall have thirty (30) days after receipt of said notice to elect:

- (a) To not participate in the drilling of such well, and in such event if Farmee commences operations therefor, Farmee shall drill, test and complete or plug and abandon at Farmee's sole cost, risk and expense, enabling Farmee the opportunity to earn an assignment in accordance with Article IV (b), with Farmor reserving the overriding royalty on production from said well as set forth in Article V, with an option to receive a working interest at payout as set forth in Article VI. There shall be a separate payout calculation for each well; or
- (b) To participate for a proportionately reduced fifty percent (50%) working interest (in lieu of reserving the overriding royalty interest set forth in Article V hereof).

Any failure on Farmor's part to make known its election within the thirty (30) days provided shall be deemed to be an election under (a) above.

In the event Farmor elects option (b) above, the additional Horizontal Well or Wells shall be drilled, tested and completed and/or plugged and abandoned pursuant to the same terms and provisions in Article XVI, with the cost, risk and expense of same shall be shared by Farmee (50%) and Farmor (50%).

If the proposed well is not commenced within ninety (90) days after expiration of the thirty (30) day notice period referred to above, and Farmee still desires to drill the well, written notice must be resubmitted to Farmor, as if no prior proposal had been made.

Notwithstanding Article XVI hereof, in the event Farmor elects to exercise option (a) above, the additional Horizontal Well or Wells shall be drilled at Farmee's sole cost, risk and expense and unless mutually agreed to otherwise, shall be drilled, tested and completed and/or plugged and abandoned pursuant to the same terms and provisions as contained herein, specifically including, but without limitation Articles IV (b) and V.

Farmee shall not propose more than one (1) well on the Lease Acreage at a time nor have more than one (1) well drilling at a time on the Lease Acreage unless there is a lease in jeopardy or by mutual consent of both Farmor and Farmee. Notwithstanding the foregoing language, nothing shall prevent Farmee from proposing a second test well in a section or unit after the actual spudding or drilling of the Initial Test Well in the same section or unit.

Article III. SUBSTITUTE WELLS

If, because of encountering impenetrable substances or because of mechanical conditions making further drilling impractical, Farmee shall have the option to discontinue the drilling of the Initial Test Well for which provision is made herein before Contract Depth has been reached and Farmee shall properly plug and abandon or complete such well in accordance with Article I A. Notwithstanding the decision to complete or plug such well, Farmee shall also have the right to drill a substitute well at a location mutually acceptable to Farmor and Farmee to earn under the terms of this Agreement. The actual drilling of any substitute well drilled hereunder shall be commenced not later than thirty (30) days from the cessation of operations of Initial Test Well. Such substitute well shall be drilled in the manner and to the depth specified herein for the Initial Test Well or Short Lateral Test Well. If such substitute well is commenced, drilled and completed and/or plugged and abandoned as herein provided, Farmee shall have complied with this Agreement to the same extent as if the well for which it is a substitute had been commenced, drilled, and completed or plugged and abandoned in accordance herewith. Each reference herein to such well shall constitute a reference to the substitute well therefore if such a substitute well is timely commenced hereunder.

Article IV. ASSIGNMENT

The Assignments to be earned hereunder shall be as follows:

(a) In the event the Initial Test Well hereunder is drilled to Contract Depth, tested and completed as a commercial producer of oil and/or gas or as a dry hole, Farmor, subject to the conditions, exceptions, reservations, covenants and agreements hereinafter set forth shall promptly assign and transfer unto Farmee, an undivided two thirds (66.66667%) of its right, title and interest in and to the Initial Test Well and the oil and gas leases described in Exhibit "1" insofar as said oil and gas leases cover those certain lands in the proration unit formed or intended to be formed for the Initial Test Well as determined by the applicable rules of the Texas Railroad Commission and will deliver such interest at the net revenue interest it owns in the proration unit of said Initial Test Well as of the date of this agreement. It is understood and agreed that Farmee shall carry and pay all associated drilling, completion and other costs for Farmor retained one third (33.3333%) working interest hereunder through the production tanks or pipeline connection, whichever the case may be, and thereafter Farmor shall automatically be deemed subject to the Operating Agreement as provided in for in Article XVI below for such working interest in the Initial Test Well and related contract area. In addition, Farmor shall deliver an assignment of an undivided fifty percent (50%) in the remaining

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4th

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Lease Acreage, delivering a 75% net rev. int & reserving an O&G int as provided for in Article V below; and

(b) In the event any additional Horizontal Well is drilled solely by Farmee to the proposed depth pursuant to Article II (a), tested and completed as a commercial producer of oil and/or gas or a dry hole, Farmor, subject to the conditions, exceptions, reservations, covenants and agreements hereinafter set forth shall assign and transfer unto Farmee, its remaining undivided fifty percent (50%) right, title and interest in and to the oil and gas leases described in Exhibit "1" insofar as said oil and gas leases cover as to those certain lands and only those lands specifically described lands in the proration unit formed or intended to be formed pursuant to the rules of the Texas Railroad Commission for such well from the surface down to the base of the deepest producing formation delivering a seventy-five percent (75%) net revenue interest and reserving an overriding royalty interest as provided for in Article V below convertible to a working interest after payout as provided for in Article VI below; or

(c) In the event any Short Lateral Test Well is drilled solely by Farmee pursuant to Article I B., production tested and completed as a commercial producer of oil and/or gas, Farmor, in its sole discretion and subject to the conditions, exceptions, reservations, covenants and agreements hereinafter set forth shall have the option within thirty (30) days after the well has been completed and production data has been provided to Farmor for a full production month to elect one of the following options:

(i) Farmor shall deem the Short Lateral Well as the earning Initial Test Well under Article I A. and assign to Farmee the rights earned under Article IV (a); or

(ii) assign and transfer unto Farmee, one-hundred percent (100%) right, title and interest in and to the wellbore from the surface down to the base of the deepest producing formation delivering a seventy-five percent (75%) net revenue interest and reserving an overriding royalty interest as provided for in Article V below convertible to a working interest after payout as provided for in Article VI below.

Failure by Farmor to elect under Article IV (c) shall be deemed an election of Article IV (c) (ii) above. In the event Farmor elects or is deemed to elect the option in Article IV (c) (ii), in order to meet all of the earning provisions under this Agreement, Farmee may elect to drill a substitute well under Article III within sixty (60) days after receiving Farmor election or the election deadline, whichever is the earlier date.

Each assignment hereunder shall be made subject to its proportionate part of all valid and existing overriding royalties and, and to any encumbrances, including but not limited to easements, rights-of-way, salt water disposal agreements, and any other surface leases and contracts which may appear of record or in place as of the date of this agreement, owned or possessed by Farmor or by its affiliated or subsidiary companies on the lands covered by the oil and gas leases described in Exhibit "1". It is expressly understood that all rights not herein specifically described shall be excepted from said assignment and reserved and retained unto Farmor, its successors and assigns. Such assignment also shall be made expressly subject to all of the terms and provisions of this Agreement.

Farmee shall within a reasonable period of time after completion of any well provided for herein make a written request for the assignment of acreage so earned, accompanied by a State of Texas completion report. It shall be a condition precedent to Farmor's obligation to deliver an assignment hereunder that Farmee shall make such a written request for the assignment of acreage so earned, that Farmee has fully and faithfully performed its obligations under this Agreement as of such

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date, and if requested by Farmor, that Farmee provide substantiation that all undisputed bills have been paid with respect to Farmee's operations, with a list and reasons for any disputed bills. Farmor shall, within thirty (30) days upon receipt of Farmee's request for an assignment and completion report, furnish Farmee an executed assignment of the earned oil and gas leases in accordance with the applicable subpart of Article IV.

Article V. OVERRIDE RESERVATION

Except for the rights earned for the Initial Test Well as provided for in Article IV (a), any assignment by Farmor to Farmee pursuant to Article IV (a), (b) and (c) (ii) hereof, shall be subject to the reservation by Farmor of an overriding royalty interest equal to the difference between twenty-five percent (25%) and lease burdens existing as of the date of this agreement as provided for in such subparts of Article IV. In the event the working interest of Farmor in the Lease Acreage to be assigned pursuant to Article IV is less than the full working interest in such Lease Acreage, the overriding royalty interest retained by Farmor shall be reduced to the proportion thereof which Farmor's working interest bears to the full working interest. In the event the Lease Acreage upon which such wellbore is located is included in a pooled spacing or proration unit, the overriding royalty interest of Farmor in the production from said unit shall be determined by multiplying said reserved overriding royalty by a fraction, the numerator of which is the net Lease Acreage in said unit and the denominator of which is the entire acreage of such unit.

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Said overriding royalty shall be delivered to Farmor in the tanks or pipeline to which such well may be connected, free and clear of all liens, storage charges, and other charges and expenses, and free and clear of all taxes, except that said overriding royalty interest shall bear its proportionate part of any gross production, severance and ad valorem taxes. Any proceeds of said overriding royalty interest shall be paid monthly by Farmee or by the purchaser or purchasers of said production directly to Farmor at P. O. Box 7500, Bartlesville, OK 74005-7500, or to such other location as may be designated by Farmor.

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Article VI. ELECTION AT PAYOUT

In the event any well provided for herein pursuant to Article II (a) and the Short Lateral Well in Article III is completed as a commercial producer of oil and/or gas, Farmee, within ninety (90) days after the completion thereof, shall furnish Farmor with an itemized statement of the cost of drilling, testing, completing, and equipping the well and disclosing all credits, including credits for salvage material, and shall also furnish Farmor with an inventory of the equipment placed in and on the well sufficient to establish the initial payout balance of the well. During the period of payout of the well as hereinafter provided, Farmee shall furnish Farmor at its office at P.O. Box 7500, Bartlesville, Oklahoma 74005-7500, Attention: Joint Venture Control, each month the same such information and reports concerning the cost of operating and maintaining the well and production therefrom as Farmee furnishes to its other working interest owners of similarly situated producing properties.

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For purposes of this Agreement as to any wells drilled pursuant to Article II (a) and the Short Lateral Well in Article III at Farmee's sole cost and expense, "payout" shall be declared when one-hundred percent (100%) of the sale proceeds of production from said well attributable to the interest assigned by Farmor pursuant to Article IV hereof (after the payment of all valid and now existing royalties and overriding royalties, including the overriding royalty reserved by Farmor on the interest drilled under Article II (a) and the Short Lateral Well in Article III, and all production, severance and ad valorem or similar taxes and the payment of all lease maintenance, extension and renewal

expenses, including, without limitation, the minimum royalties, shut-in well payments and other costs and expenses paid by Farmee pursuant to Articles X and XVI hereof, excluding oil and gas leases bought within the AMI, shall be equal to the total of all costs and expenses allocated and chargeable to such interest for the drilling, testing, completing and equipping of the well, plus the allocated and chargeable costs of operating and maintaining same during said payout period. In determining costs and expenses incurred by Farmee in drilling, testing, completing and equipping any additional wells in which Farmor does not elect to participate pursuant to Article II (a) and the Short Lateral Well in Article III and in operating and maintaining same during each well's respective payout period, the Accounting Procedure attached as Exhibit "C" to the Operating Agreement attached hereto as Exhibit "3", shall be followed regardless of whether the Operating Agreement is in effect at that time. Farmee shall notify Farmor in writing when payout occurs for each well. Farmor shall have sixty (60) days after receipt of said notice within which to elect:

- (a) to convert its overriding royalty interest to a proportionately reduced fifty percent (50%) working interest. The intent being that Farmor would receive not more than a 25% working interest upon such election (being 50% of the 50% working interest provided for under Article IV (b), for Article II (a) wells, however for Short Lateral Wells it shall be the full 50% working interest ; or
- (b) to retain its overriding royalty.

Failure by Farmor to give Farmee written notice of its election within the sixty (60) day period shall be construed as an election not to convert its overriding royalty interest to a working interest. In the event Farmor elects to convert its said overriding royalty interest to a working interest, Farmee shall promptly assign and transfer to Farmor an undivided fifty percent (50%) working interest in the Lease Acreage heretofore assigned upon which said overriding royalty interest was reserved pursuant to Article IV (b), together with the same proportionate working interest in such well and all materials and equipment associated therewith. Such assignment shall be executed by Farmor to acknowledge its consent to the termination of the reserved overriding royalty interest in such Lease Acreage. Farmee shall warrant such assignment to be free and clear of all liens, claims, clouds and encumbrances caused, suffered or created by, through or under Farmee; provided that such interests assigned shall be subject to all encumbrances existing prior to Farmee's ownership of the same or otherwise caused, suffered or created, by through, or under Farmor. In the event the working interest of Farmor in the portion of the Lease Acreage upon which the well is located is less than the full working interest in such Lease Acreage, the converted working interest or overriding royalty interest of Farmor in such acreage shall be reduced to the proportion thereof which Farmor's fifty percent (50%) working interest bore to the full working interest. In the event the Lease Acreage upon which such well is located is included in a pooled spacing or proration unit, the working interest or overriding royalty interest of Farmor in such unit shall be determined by multiplying Farmor's working interest or overriding royalty interest by a fraction, the numerator of which is the net Lease Acreage in said unit and the denominator of which is the entire acreage of such unit.

For wells drilled pursuant to Article II (a) and the Short Lateral Well in Article III, Farmor's right to convert its overriding royalty interest to a working interest can be exercised on any well located upon any portion of the Lease Acreage or acreage pooled therewith. The conversion of Farmor's overriding royalty interest to a working interest in any well shall be effective upon the date of payout for such well.

In the event Farmor elects to convert its overriding royalty interest in any well to a working interest, the Operating Agreement attached as Exhibit "3" will govern future operations relative to such well, pursuant to Article XVI hereof.

Article VII. ADDITIONAL WELLS PRIOR TO PAYOUT

If Farmee desires to drill a well on any portion of the Lease Acreage already assigned to Farmee under the provisions of Article II (a) and Article IV (b), and such well is to be commenced prior to payout of the existing well on the portion of the Lease Acreage already assigned or to be assigned to Farmee, Farmee shall notify Farmor of the location, proposed depth, objective formation and proposed cost of the operation. Farmor shall have thirty (30) days after receipt of said notice to elect:

- (a) To continue to receive the overriding royalty on production from said well, as set forth in Article V, with an option to receive a working interest at payout, as set forth in Article VI, provided that there shall be a separate payout calculation for each well; or
- (b) Receive an assignment of a fifty percent (50%) working interest in said well and participate as to a fifty percent (50%) working interest and terminate its overriding royalty interest in said proposed well and the Lease Acreage allocated to said well to Farmee.

Any failure on Farmor's part to make known its election within the thirty (30) days provided shall be deemed to be an election under (a) above.

If the proposed well is not commenced within ninety (90) days after expiration of the thirty (30) day notice period referred to above, and Farmee still desires to drill the well, written notice must be resubmitted to Farmor, as if no prior proposal had been made.

Article VIII. DEFAULT

If Farmee fails to commence actual drilling operations of the Initial Test Well in accordance with the time period set forth in Article I hereof, then Farmee will pay Farmor as its sole and exclusive remedy, the sum of Five Hundred Thousand dollars (\$500,000.00) as liquidated damages within ten (10) days after June 1, 2010 and will forfeit this Agreement and all rights Farmee would have earned for the drilling of such well. The parties hereto agree that actual damages would be difficult to ascertain, the amount of liquidated damages is reasonable and that the liquidated damages are not, and are not intended as, a penalty.

Article IX. NOTICE OF LOCATION

Farmee shall promptly notify Farmor in writing, of (a) the proposed location of each well for which provisions are herein made, when fixed, by giving the distances and directions thereof from at least two (2) valid governmental survey monuments or valid survey lines, and (b) the date of spudding (commencement of actual drilling) of said well(s).

Article X. MINIMUM ROYALTIES AND SHUT-IN WELL PAYMENTS

Farmee at its sole cost agrees to timely pay any and all shut-in well payments and minimum royalties which may be required or permitted by the terms of the oil and gas leases covering the Lease Acreage for the Initial Test Well or any additional well hereunder that it does not plan to offer to Farmor under Article XV hereunder.

Farmee agrees to notify Farmor promptly at any time a well hereunder is completed on the Lease Acreage which is capable of producing but is not produced, and at any time production from any such well on the Lease Acreage ceases for any reason.

Farmee agrees to promptly furnish to Farmor at ___ Attention: ___, the original or a

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Obligation

"Other issues"

photocopy of any and all instruments of whatsoever character received by Farmee which evidence a change in the ownership of royalties payable under the oil and gas leases covering the Lease Acreage.

Article XI. SURRENDER, ABANDONMENT OR RELINQUISHMENT OF LEASE

Farmee shall not at any time abandon, relinquish, surrender or otherwise permit to expire its leasehold estate in any part or all of the Lease Acreage or plug and abandon the last producing well or wells capable of producing on the Lease Acreage without first giving Farmor written notice of such desire and intention at least thirty (30) days before said leasehold estate is to be abandoned, relinquished, surrendered or otherwise permitted to expire or the last producing well or wells capable of producing is to be plugged and abandoned, and Farmor shall have fifteen (15) days after receipt of such notice within which to notify Farmee whether Farmor elects to take over the leasehold estate of Farmee, it being understood that in the event Farmor shall elect to take over said leasehold estate of Farmee and there shall be a well or wells thereon belonging to Farmee, Farmor shall have the right to take over any such well or wells by paying for the reasonable salvage value of Farmee's interest in the well, materials and equipment associated therewith at the time of takeover less Farmee's interest in all reasonable costs of salvaging and all reasonable costs of plugging and abandoning, however, Farmor shall not be required to make payment therefore until Farmor shall have approved or accepted title to said leasehold estate of Farmee. If Farmor shall fail or neglect to so notify Farmee of its election within said fifteen (15) day period it shall be deemed that Farmor does not elect to take over said leasehold estate. If Farmor shall elect to take over said leasehold estate, covering any part or all of said premises and accept an assignment thereof from Farmee, but Farmor elects not to take over any particular well or wells located thereon, then before assigning said leasehold estate to Farmor, Farmee shall in compliance with all relevant statutes, regulations and lease obligations properly plug and abandon any and all wells which Farmor does not elect to take over, and shall, within a reasonable time thereafter, remove all leasehold material and debris placed on said premises by Farmee and restore the property by filling and leveling the cellar and slush pits, all at the sole risk and expense of Farmee. Upon the election of Farmor to take over the leasehold estate of Farmee in any part or all of said Lease Acreage, Farmee shall deliver unto Farmor a proper assignment of such Lease Acreage warranting the same to be free and clear of all liens, claims, clouds and encumbrances caused, suffered or created by, through or under Farmee. Any reassignment to Farmor hereunder shall not be construed as relieving Farmee from any liabilities or obligations with respect to Farmee's operations conducted on or its production of oil and/or gas from such Lease Acreage which accrued under this Agreement prior to such reassignment; provided, however, to the extent that any wells and/or related production facilities are to be included in such Lease Acreage to be reassigned, Farmor shall assume all liabilities and obligations with respect to the plugging and abandonment of such wells and facilities and related environmental and regulatory obligations.

Article XII. PERFORMANCE OF LEASE COVENANTS

Farmee agrees to accept the assignment(s) of certain interests in the Lease Acreage herein provided for, subject to all of the terms, provisions, conditions, and covenants of the oil and gas leases and of intermediate assignments thereof, if any. Farmee further assumes and agrees to comply fully with and to perform timely each and every duty, obligation and covenant (both express and implied) and provision of the oil and gas leases and of intermediate assignments thereof, if any, imposed upon the lessee and/or assignee thereby, insofar as same concerns any interests assigned or which may be assigned pursuant to the terms of this Agreement. Farmee further agrees to save, protect and hold Farmor harmless at all times from all damages and all penalties which may arise or

be adjudged against it on Farmee's failure or refusal to comply fully and faithfully with each and every duty, obligation and covenant of said lease and of intermediate assignments thereof, if any, imposed upon the lessee/or assignee thereby insofar as it concerns Farmee's operations on or its production of oil and/or gas from the Lease Acreage.

Article XIII. CONCURRENT RIGHTS OF INGRESS AND EGRESS

The parties hereto, their successors and assigns, shall have equal and concurrent rights of ingress and egress on the Lease Acreage for the purpose of exploring for, drilling for, mining, producing, and marketing the minerals owned by each of the parties hereto, in their respective depths and, further, said parties shall own and hold equally any and all rights granted by said oil and gas leases as incident to and for the purpose of exploring for, drilling for, mining and producing the minerals owned by them in their respective depths, including the right to lay and maintain pipelines, water lines, dig pits, erect structures and to do and perform any and all other things incident to the rights and interests of the parties hereto in their respective depths. The aforesaid rights shall be exercised in such a manner as not to interfere unduly with the similar rights of the other party hereto.

Article XIV. EXTENSIONS AND RENEWALS

All interests, reservations, and rights of Farmor in and to the Lease Acreage and the production therefrom provided for in this Agreement shall apply to any and all extensions or renewals of the oil and gas leases described in Exhibit "1" which may be acquired by Farmee, provided that Farmor's overriding royalty interest, if any, in any such renewed or extended leases shall be equal to the difference between lease burdens and twenty-five percent (25%). The term "extensions" as used herein shall be deemed to include, but not by way of limitation, any agreement(s) of whatsoever character acquired by Farmee under and by virtue of which said oil and gas leases are continued in force. The term "renewals" as used herein shall be deemed to include, but not by way of limitation, any lease acquired by Farmee on all or part of the Lease Acreage within six (6) months before or after the date of termination or expiration of said lease or any extensions or renewals thereof. Farmee agrees to execute, without charge or cost to Farmor, such further grants and assurances as may be requisite to vest in Farmor under any such extensions or renewals the same rights and interests in and to the Lease Acreage and the production therefrom as are reserved by or granted to Farmor under the provisions of this Agreement on all oil and gas leases expiring through December 31, 2010. The cost for all extensions and renewals on all oil and gas leases expiring after December 31, 2010 shall be shared by Farmee fifty percent (50%) and Farmor fifty percent (50%).

Article XV. WELL TAKE OVER

If, after drilling and testing operations are completed for the Initial Test Well as herein provided and Farmee elects to plug and abandon said well, Farmee shall give prompt notice to Farmor of Farmee's intention to do so. Farmor shall then have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of said notice to elect at its sole option to take over the well. Farmor and Farmee may tender said notice and/or response by telephone, telecopy or telegram within the time period prescribed herein, and later confirm said notice and/or response with a signed document. Failing receipt of response from Farmor during said period, Farmor shall be deemed to have declined, and Farmee shall proceed to plug and abandon the well. If Farmor elects to take over said well, Farmee shall convey to Farmor, Farmee's interest in the well, material and equipment associated therewith, free and clear of all liens caused, suffered or created by, through or under Farmee, and Farmor shall pay for the reasonable salvage value of Farmee's interest in the well, materials and equipment associated therewith at the time of take over less Farmee's interest in all

Why needed? "Contract
Depth" :
may have
multiple
wells

reasonable costs of salvaging and all reasonable costs of plugging and abandoning. In the event of take over, Farmor's operations on such well from and after the date of take over shall be at Farmor's sole cost, risk and expense. In the event of take over, Farmee shall promptly relinquish to Farmor in written form acceptable to Farmor any and all rights to which Farmee would have been entitled in the well and all acreage and production associated therewith under the terms of this Agreement, without express or implied warranty of title but free and clear of all liens, claims, clouds or encumbrances caused, suffered or created by, through or under Farmee. This option shall also apply to any additional wells as may be drilled pursuant to the provisions of this Agreement.

Article XVI. JOINT OPERATIONS

In the event that Farmor shall elect to convert its overriding royalty interest in any well to a working interest, as provided in Articles VI and VII, elects to participate with a working interest in any well hereunder, and after Farmee's carry of Farmor working interest in the Initial Test Well is complete then any such joint operations shall be governed by and conducted pursuant to the terms of the Operating Agreement ("Operating Agreement") attached hereto as Exhibit "3" with a contract area identified as the governmental proration unit upon which the joint operations will be conducted. The parties agree that by execution of this Agreement, they are also bound by the Operating Agreement as provided for herein. The parties agree to execute a Financing Statement and Memorandum of Operating Agreement thereof to further evidence that they are each bound by the terms and provisions of this Agreement and the Operating Agreement. Farmee's affiliate, ___ will be designated Operator under the Operating Agreement. Farmor and Farmee agree to amend the Exhibits "A" and "A-1" of the Operating Agreement from time to time as necessary so the "Contract Area" and the "AMI" described in the Operating Agreement accurately reflect such jointly-owned working interest.

Article XVII. TITLES

Any assignment(s) from Farmor to Farmee as provided for in this Agreement shall warrant same to be free and clear of all liens, claims, clouds and encumbrances caused, suffered or created by, through or under Farmor. Farmor will, upon written request furnish Farmee copies of rental receipts, contracts, assignments, and title data from lessor(s) pertaining to the Lease Acreage, but shall not be liable for the accuracy or completeness of such information or for inadvertent error in omitting such materials. Any title work as may be necessary shall be performed at the sole cost, direction and responsibility of Farmee.

Farmee agrees, at no cost to Farmor, to furnish Farmor with copies of all title opinions of whatever nature or other title data relating thereto, which Farmee obtains on the Lease Acreage prior to the commencement of any well under this Agreement. Farmee further agrees to furnish copies of any division order title opinions to Farmor at no cost to Farmor. Farmee shall promptly forward to Farmor copies of all correspondence and materials relating to title received from third parties concerning the Lease Acreage.

Article XVIII. GEOLOGICAL DATA

In conjunction with the drilling of any well hereunder, Farmee shall conduct or cause to be conducted the geological requirements as set out in Exhibit "4" attached hereto and by this reference made a part hereof and shall at its sole cost, risk, and expense (except as otherwise specified in said Exhibit "4") furnish to Farmor all the samples, logs, and other information and data, as specified in said Exhibit "4".

Article XIX. AD VALOREM TAXES

What kind?

Each party hereto shall ultimately bear its proportionate share of ad valorem taxes which are assessed against the Lease Acreage in proportion to such party's ownership interest in and to such Lease Acreage, and hereby agrees to reimburse the other party hereto for its proportionate share of any such taxes paid by such party to the taxing authorities. If the Lease Acreage has been assessed for ad valorem taxes, such taxes shall be prorated on a calendar year basis and Farmor shall pay such taxes for the current year. Farmee shall be liable for its proportionate share of the full amount of taxes so paid and shall pay Farmor upon being billed therefore. Farmee assumes the responsibility for the payment of all ad valorem taxes, if any, on any well hereunder and all acreage earned by drilling said well for all subsequent years, subject to Farmor's continuing obligation to reimburse Farmee for Farmor's proportionate share of such taxes when billed for the same by Farmee.

Article XX. DISCLAIMER OF JOINT LIABILITY AND TAX PARTNERSHIP

CHAN #6-Risk mgmt

It is understood and agreed that this Agreement shall not create a partnership between the parties hereto, other than a tax partnership and that no act done by any party, pursuant to the provisions hereof, shall operate to create such relationship, nor shall the provisions of this Agreement be construed as creating such relationship. The operating liability of the parties shall be several and not joint or collective, and each party shall be responsible only for its operating obligations as herein set forth, and shall be liable only for its proportionate share of the costs, expenses, and liabilities incurred pursuant to the terms and provisions of this Agreement or the exhibits attached hereto.

For federal and state income tax purposes only, the parties hereto shall be governed by the Tax Partnership provisions set out in Exhibit "5" attached to this agreement.

Article XXI. INSURANCE AND INDEMNITY

Farmee at all times during the term of this Agreement shall comply with all applicable Federal and State Workers' Compensation act or acts and carry minimum Employer's Liability Insurance with a limit of \$1,000,000 any one occurrence or the statutory requirement, whichever is greater and shall purchase and maintain the following minimum insurance:

- (a) Commercial General Liability Insurance, including contractual liability coverage, with a limit of \$1,000,000 any one occurrence. Such insurance shall include sudden and accidental pollution control. This insurance must cover all operations of Farmee required to fulfill this Agreement.
- (b) Automobile Liability Insurance with a combined bodily injury and property damage limit of \$1,000,000 any one occurrence or the statutory requirement, whichever is the greater, for all owned and leased vehicles

No recitation of any amount or amounts herein shall be construed to in any manner limit Farmee's liability under this Agreement.

Prior to commencing any operations on the Lease Acreage Farmee shall furnish certificates satisfactory to Farmor certifying full compliance with the above requirements. Certificates of insurance shall specify that in the event of cancellation or material change in coverage at least ten (10) days prior written notice shall be given to Farmor. All required insurance policies shall be so written or endorsed to provide that the insurance company shall have no right of recovery against Farmor, its agents, servants and employees and that Farmor, its agents, servants and employees, and, excluding Worker's Compensation and Employer's Liability Insurance, that Farmor, its agents, servants, and employees are added as additional assureds under such policies.

The indemnification provisions herein shall not apply if the parties are conducting joint operations pursuant to the terms of the Operating Agreement attached hereto as Exhibit "3".

TO THE MAXIMUM EXTENT PERMITTED BY LAW, FARMEE RELEASES AND AGREES TO INDEMNIFY AND DEFEND FARMOR, ITS DIRECTORS, OFFICERS, REPRESENTATIVES, AGENTS, SERVANTS, AND EMPLOYEES, AND TO SAVE AND HOLD ANY AND ALL OF THEM HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS RESULTING FROM OR ARISING OUT OF THE OPERATIONS CONDUCTED OR CAUSED TO BE CONDUCTED BY FARMEE ON THE LEASE ACREAGE FOR (i) PROPERTY DAMAGE OF ALL CHARACTER INCLUDING, BUT NOT LIMITED TO, DAMAGES CAUSED TO LAND, STOCK, CROPS, FENCES, BUILDINGS, STRUCTURES AND OTHER IMPROVEMENTS; (ii) DEATH OR INJURY TO PERSONS INCLUDING, BUT NOT LIMITED TO, FARMEE, FARMEE'S CONTRACTORS AND SUBCONTRACTORS, AND ITS OR THEIR RESPECTIVE EMPLOYEES, (iii) CLAIMS, PENALTIES, AND OBLIGATIONS RELATED TO ENVIRONMENTAL DAMAGE, REMEDIATION, OR CLEAN-UP; AND (iv) CLAIMS FOR LABOR AND MATERIALS AND ANY OTHER COSTS AND EXPENSES IN CONNECTION WITH SUCH OPERATIONS. IT IS INTENDED THAT THIS INDEMNITY AND RELEASE FROM LIABILITY SHALL APPLY EVEN WHERE THE DAMAGE OR HARM WAS CAUSED IN WHOLE OR IN PART BY FARMOR'S OR OTHER INDEMNITEE'S NEGLIGENCE (EXCLUSIVE OF WILLFULL MISCONDUCT) OR STRICT LIABILITY. FARMEE AGREES TO OBTAIN PRIMARY INSURANCE COVERAGE IN THE MINIMUM AMOUNT OF \$1,000,000, UNDER WHICH THE INSURER HAS NO RIGHT OF SUBROGATION, TO SUPPORT THE INDEMNITY OBLIGATIONS SET FORTH IN THIS ARTICLE XXI, PROVIDED THAT FARMEE 'S INDEMNITY OBLIGATIONS SHALL NOT BE LIMITED BY THE AMOUNT OF SUCH INSURANCE UNLESS APPLICABLE LAW SO PROVIDES.

IN THE EVENT THAT ANY LAW OR RULE RENDERS ANY PORTION OF THIS ARTICLE XXI UNENFORCEABLE OR INVALID THEN THE PARTIES INTEND THAT THE REMAINING PORTION OF SUCH ARTICLE AND REQUIREMENTS THEREOF CONTINUE IN FULL FORCE AND EFFECT TO THE EXTENT PERMITTED BY LAW.

ALL INSURANCE COVERAGE, RELEASES, WAIVERS OF SUBROGATION AND INDEMNITIES PROVIDED TO FARMOR AND FARMEE IN THIS ARTICLE XXI SHALL EXTEND TO AND FULLY PROTECT FARMOR'S AND FARMEE'S AFFILIATED AND SUBSIDIARY COMPANIES AND THEIR RESPECTIVE AGENTS, SERVANTS, AND EMPLOYEES. ALL INSURANCE REQUIREMENTS PROVIDED FOR THIS AGREEMENT MAY BE MET BY A COMBINATION OF SELF-INSURANCE, PRIMARY AND EXCESS INSURANCE POLICIES. IN ADDITION, WHEN JOINT OPERATIONS ARE BEING CONDUCTED HEREUNDER ANY CONFLICT BETWEEN THE TERMS OF THIS ARTICLE XXI AND THE TERMS OF THE OPERATING AGREEMENT PROVIDED FOR IN ARTICLE XVI HEREOF, SHALL BE CONTROLLED BY THE TERMS OF THE OPERATING AGREEMENT FOR THE CONTRACT AREA TO WHICH THE OPERATING AGREEMENT APPLIES.

Article XXII. AUDITS

Farmee shall, and shall require that its subcontractors shall, maintain a true and correct set of records pertaining to all activities relating to its performance under this Agreement and all transactions related thereto. Farmee further agrees, and shall require that its subcontractors agree, to retain all such records for a period of not less than two (2) years after completion of performance

under this Agreement. Farmor, and any representative or representatives authorized by Farmor, during such term upon fifteen (15) days notice in writing to Farmee, shall have the right to audit Farmee's accounts and records hereunder no more than four (4) times per calendar year in accordance with the COPAS Accounting Procedure contained in Exhibit "C" to the Operating Agreement attached hereto as Exhibit "3" (regardless of whether an Operating Agreement is in effect) with regard to any joint interest audits. Farmee agrees to make adjustments of its records and accounts to correct and clarify deficiencies that the parties mutually agree are revealed by Farmor's audit. In addition, Farmee shall also retain the required records for such period of time as is sufficient to allow for the audit of those records by the Internal Revenue Service, as provided by the Internal Revenue Code of 1986, as amended from time to time and for such period of time which is sufficient to allow for the audit of those records by the appropriate state taxing authority as provided by similar provisions of state tax laws.

Article XXIII. CONFLICT OF INTEREST

Farmee represents and warrants that to the knowledge of Farmee no employee of Farmor will acquire a personal interest in the property covered by this Agreement or in other property of Farmee or receive, for said employee's personal use and benefit, a payment or other thing of value from Farmee in connection with this Agreement. It is understood by Farmee that the foregoing representation and warranty is part of the consideration for Farmor entering into this Agreement and that Farmor would not have entered this Agreement without the foregoing representation and warranty of Farmee.

Article XXIV. CONSENT TO ASSIGN

Prior to the commencement of actual drilling of the Initial Test Well, any assignment, sale or transfer of, or agreement to sell, assign or transfer any interest or interests in or under this Agreement may be made by Farmee provided any such sale, assignment or transfer is made with the prior written consent of Farmor, is made expressly subject to all the terms and provisions of this Agreement, and the assignee expressly agrees to be bound by the terms hereof in writing. Farmee shall promptly furnish Farmor a fully executed and recorded copy of any such sale, assignment or transfer.

Article XXV. PREFERENTIAL RIGHT TO PURCHASE

In the event either party shall at any time after the commencement of actual drilling of the Initial Test Well desire to sell, assign or transfer all or any part of its interest and shall have a bona fide offer from a purchaser to purchase all or any part of such interest at a price that is acceptable to such party, then the selling party shall furnish to the non-selling party a copy of the signed bona fide offer which shall disclose all the terms of the transaction including a legal description of the property and/or wells. The non-selling party shall have fifteen (15) days after receipt of such notice within which to notify the selling party of its election to purchase said interest at the same price and under the same terms and conditions as offered by said prospective purchaser. If the non-selling party shall elect to purchase said interest, the selling party shall promptly execute, acknowledge, and deliver unto the non-selling party a proper assignment of such interest and Farmor, upon approval of title thereto, shall pay the stipulated price therefore. If, within the time above specified, the non-selling party shall notify the selling party that it does not elect to purchase such interest or the non-selling party fails or neglects to notify the selling party, which failure or neglect shall be construed to mean that non-selling party does not elect to purchase such interest, then, in either event, the selling party shall be at liberty to sell and assign such interest to some other purchaser at the same bona fide price and under the same terms and conditions as offered to non-selling party for such interest; provided, however,

that if such interest is not disposed of by the selling party within thirty (30) days after the expiration of said fifteen (15) day period the selling party shall not thereafter dispose of all or any part of its interest without again offering the same to Farmor as above provided.

The parties preferential right to purchase and Farmor right to approve sales, assignments or transfers as provided herein shall extend to any subsequent sales, assignments or transfers by Farmee or any third party(ies). The terms of this Article XXV shall not apply to such sales, assignments or transfers to affiliated entities or the result of any compensation program of a party.

Article XXVI. NON-DISCRIMINATION

In connection with the performance of work under this Agreement, Farmee agrees to comply with all of the provisions contained in Exhibit "F" to the Operating Agreement attached hereto as Exhibit "3", regardless of whether an Operating Agreement is in effect.

Article XXVII. APPLICABLE LAWS

THIS AGREEMENT AND THE RESPECTIVE RIGHTS AND OBLIGATIONS OF THE PARTIES HERETO SHALL BE GOVERNED BY THE LAWS OF THE STATE WHERE THE LEASE ACREAGE IS LOCATED AND SHALL BE SUBJECT TO ALL VALID AND APPLICABLE STATE, FEDERAL, AND LOCAL LAWS, RULES, REGULATIONS, AND ORDERS; AND, IN THE EVENT THIS AGREEMENT OR ANY PROVISION HEREOF IS, OR THE OPERATIONS CONTEMPLATED HEREBY, ARE FOUND TO BE INCONSISTENT WITH OR CONTRARY TO ANY SUCH LAWS, RULES, REGULATIONS AND ORDERS, THE LATTER SHALL BE DEEMED TO CONTROL. THIS AGREEMENT SHALL BE REGARDED AS MODIFIED ACCORDINGLY AND SHALL, AS SO MODIFIED, CONTINUE IN FULL FORCE AND EFFECT, PROVIDED HOWEVER, THIS AGREEMENT SHALL NOT BECOME EFFECTIVE UNTIL IT HAS BEEN EXECUTED BY ALL PARTIES NAMED HEREIN.

Article XXVIII. ALTERNATIVE DISPUTE RESOLUTION

The parties agree that if any dispute arises between them related to this Agreement, they will use the procedures outlined in Exhibit "2", attached hereto, to attempt to resolve such dispute prior to commencing legal proceedings; provided, however, that either party may seek a restraining order, temporary injunction, or other provisional judicial relief if such party in its sole judgment believes that such action is necessary to avoid irreparable injury or to preserve the status quo. The parties will continue to participate in good faith in the procedures despite any such request for provisional relief.

Article XXIX. NOTICES

All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing by mail, overnight courier service, telex or telecopier, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

FARMOR:

FARMEE:

The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent responsive notice shall be deemed given when deposited in the U.S. mail or overnight courier service, with postage or charges prepaid or when actually received if sent by telex or telecopier. Each party shall have the right to change its address at anytime, and from time to time, by giving written notice thereof to the other party.

Article XXX. SUCCESSORS AND ASSIGNS

The terms, covenants, and conditions hereof shall be deemed to be covenants running with the leasehold estate(s) herein above referred to and as such shall extend to, bind and inure to the benefit of the parties hereto, their successors and assigns.

Article XXXI. TERM

Subject to the other provisions of this Agreement, this Agreement shall remain in force for the life of the oil and gas leases covering the Lease Acreage and any extensions or renewals thereof, whether by production or otherwise. Notwithstanding termination of this Agreement, all debts, liabilities, accounting duties and indemnities arising from events occurring prior to such termination shall survive until their satisfaction or completion. After termination of this Agreement, the interests of the parties in lands subject to the Operating Agreement, and only insofar as same are included within the contract area of the Operating Agreement, will be operated in accordance with the Operating Agreement to which such joint interests are subject.

Article XXXII. HEADINGS FOR CONVENIENCE

The paragraph headings used in this Agreement are inserted for convenience only and shall be disregarded in construing this Agreement.

Article XXXIII. AREA OF MUTUAL INTEREST

An Area of Mutual Interest ("AMI") is hereby established by and between the parties encompassing all of the lands described in Exhibit "1". The terms and provisions of such AMI shall be the same as those contained in Article XV, Paragraph H. of the Operating Agreement attached hereto as Exhibit "3" which is incorporated by reference just as though same had been included herein verbatim. Upon the expiration or termination of this Agreement, such AMI shall be limited to those governmental sections in which Farmee has been assigned Lease Acreage, and shall expire as to all other Lease Acreage. The parties hereby agree that they shall amend Exhibit "A-1" of all Operating Agreements in effect at the time of such expiration or termination of this Agreement to reflect the Lease Acreage contained within such AMI.

CHAR #1 - Affected
Acreage

Article XXXIV. FORCE MAJEURE

Should either party be prevented or hindered from complying with any obligation created hereunder, other than the obligation to pay money, by reason of fire, flood, storm, act of God, governmental authority, labor disputes, war, or any other cause not enumerated herein but which is beyond the reasonable control of the party whose performance is affected, then the performance of any such obligation shall be suspended during the period of such prevention or hindrance, provided the affected party exercises all reasonable diligence to remove the cause of force majeure. The requirement that any force majeure shall be remedied with all reasonable diligence shall not require the settlement of strikes, lockouts or other labor difficulties by the party involved.

Article XXXV. ENTIRE AGREEMENT

This Agreement and its exhibits shall constitute the entire contract of the parties and there are no agreements, undertakings, obligations, promises, assurances or conditions, whether precedent or otherwise, except those specifically set forth. In the event of any conflict between the provisions of the attached exhibits and the provisions of this Agreement, the latter shall govern. This Agreement supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof. This Agreement may be executed in multiple counterparts, each of which shall constitute an original and all of which, when construed together, shall constitute but one and the same instrument.

EXECUTED on the dates set forth in each party's respective acknowledgment below, but effective as of April 5, 2010.

[SIGNATURE BLOCKS FOR EACH PARTY]

NOTARY FORMS

EXHIBIT "2" --- DISPUTE RESOLUTION

EXHIBIT "4" --- GEOLOGICAL REQUIREMENTS