

HMG:gc 1/31/52 2-9
Ash Creek Area
McDermott - Shell Agreement

RECORDED JULY 26, 1952, BK 83 PG 296
NO. 741565, J. B. HINE, COUNTY CLERK

OPERATING AGREEMENT

THIS AGREEMENT made and entered into this 21st day of February, 1952, by and between J. RAY McDERMOTT & COMPANY, INC., a Delaware corporation (hereinafter called "McDermott"), and SHELL OIL COMPANY, a Delaware corporation (hereinafter called "Shell"),

W I T N E S S E T H:

THAT, WHEREAS, Shell is the owner and holder of certain oil and gas leases and the exclusive right and option to take by assignment certain United States Oil and Gas leases issued in pursuance of the Act of Congress approved February 25, 1920 (41 Stat. 437), as amended, (hereinafter called "Federal Leasing Act"), covering lands in Sheridan County, Wyoming, said leases and options, and the lands covered thereby (insofar as they are subject to this Agreement) being particularly described in Exhibit A attached hereto and hereby made a part hereof;

AND, WHEREAS, the parties hereto desire to evidence their agreement relating to the operation of such lands (any such lands as may be from time to time subject to this agreement being hereinafter called "said lands") for oil and gas development purposes;

NOW, THEREFORE, in consideration of the premises and of the respective agreements hereinafter set forth, it is mutually agreed:

1. Shell represents that it is the owner and holder of said leases and options (said leases and options being hereinafter collectively called "said leases") as to said lands subject only to the overriding royalties referred to in Exhibit A, and that it has not heretofore sold, assigned, transferred or other-

wise disposed of or encumbered its rights therein. Except as hereinbefore provided, Shell does not make any guaranty, warranty or representation whatsoever with respect to its right, title and interest in and to the oil, gas and other hydrocarbon substances in or under said lands or as to the validity of said leases.

Without delay after the execution of this Agreement Shell agrees to furnish McDermott with photostatic copies of said leases and mesne assignments described in Exhibit A. Shell further agrees to lend McDermott any abstracts which Shell now has pertaining to the lands covered by said leases for a reasonable period of time. It is expressly understood that the rights and obligations of McDermott and Shell under this Agreement are not in anywise dependent upon McDermott's acceptance or nonacceptance of title and that the furnishing of said material to McDermott as aforesaid is solely for the convenience of McDermott.

2. On or before June 1, 1952, McDermott shall commence the drilling of a test well on said lands at a location to be approved by Shell and shall thereafter prosecute the drilling of such well to completion, i.e., until (a) it is drilled to a vertical depth of 5200 feet below the surface, or (b) it is drilled to a depth sufficient to adequately test the basal Shannon sand, or (c) oil or gas in paying quantities (i.e., quantities sufficient to repay the costs of drilling and producing operations, with a reasonable profit) shall be discovered therein, or (d) McDermott and Shell shall determine that further drilling in such well would not be warranted, or (e) unless some formation rendering further drilling with modern drilling equipment impracticable according to good operating practices is encountered at a lesser depth, whichever event shall first occur. During the course of the drilling of the test well McDermott shall make satisfactory tests of all possible producing horizons, especially of all formations

showing either oil or gas. Should a showing of oil or gas be encountered at any depth in the test well, McDermott shall immediately notify Shell thereof. Shell may, at any time during the course of the drilling of the well, request that a showing or showings of oil or gas be tested. Such testing shall be undertaken by McDermott prior to the completion of drilling operations. McDermott shall notify Shell before the testing of any showing so that Shell may have representatives present to witness such testing. McDermott shall bear the entire cost of drilling, abandoning (if not completed as a paying producer), testing and completing said well (including the completion equipment installed in connection therewith, i.e., the production string, the wellhead connections and/or pumping equipment, tanks and other equipment required for the operation of such well) and no portion of such costs shall be borne by Shell or constitute a chargeable expense hereunder, provided, however, that if said well is completed as a flowing well and pumping equipment is not required for at least six (6) months after completion, the cost of pumping equipment thereafter installed shall constitute a chargeable expense hereunder.

In the event said test well is completed as hereinabove defined but not as a well producing oil or gas in paying quantities, then within ninety (90) days from and after the date of such completion McDermott shall either commence the drilling of a second test well on said lands at a location to be approved by Shell and thereafter diligently prosecute the drilling of such well to completion as hereinabove defined or relinquish to Shell all of its interest in and to said lands and in and under this Agreement but any such relinquishment shall not relieve McDermott of any obligations with respect to said lands or under this Agreement theretofore accrued. In the event McDermott elects to drill said second test well it shall bear the entire cost of drilling, abandoning (if not

completed as a paying producer) and testing such well but if such well is completed as a well producing oil or gas in paying quantities all costs of completing such well (including the completion equipment hereinabove enumerated) shall be borne as a chargeable expense hereunder by McDermott and by Shell.

3. Upon demand, after the completion of said first test well as a well producing oil or gas in paying quantities or, in any event, upon the completion of said second test well, Shell agrees to make, execute and deliver to McDermott assignments, without warranty of title (but with Shell's representation that Shell has not theretofore sold, assigned, transferred or otherwise disposed of or encumbered its said rights therein), assigning to McDermott an undivided one-half (1/2) interest in and to said leases as to said lands, such assignments to be subject to the terms and provisions of this Agreement.

In the event that either party hereto at any time should acquire any oil and gas operating rights (other than those now held by Shell) in and to any of said lands, such party shall within thirty (30) days after such rights are so acquired, notify the other party in writing of such acquisition. Such other party shall have thirty (30) days after the receipt of such notice within which to elect, by written notice given to the acquiring party, to take an assignment of an undivided one-half (1/2) interest in the rights so acquired. Upon the other party electing to take an assignment of an undivided one-half interest as aforesaid, such other party shall pay to acquiring party one-half (1/2) of the acquisition costs of such rights and shall receive an assignment from acquiring party of such undivided one-half (1/2) interest.

4. McDermott is hereby designated as initial Operator hereunder. The Operator hereunder (but McDermott only after it has fulfilled its obligations under paragraph 2 hereof) may resign

as Operator by giving written notice to Non-Operator. In the event Operator shall at any time be in default in the performance of any of its obligations hereunder and shall fail to remedy, or commence and to proceed diligently to remedy such default within sixty (60) days after receiving written notice from Non-Operator to correct such default, it shall be removed as Operator hereunder. Such right of removal shall not deprive Non-Operator of any additional rights or remedies. Any such resignation or removal as Operator hereunder shall be effective at 7:00 A.M. of the first day of the calendar month next succeeding the expiration of thirty (30) days after notice of resignation or thirty (30) days after expiration of the time above provided within which a default may be corrected or commence to be corrected, as the case may be, and thereupon Non-Operator may elect to become the Operator hereunder. In the event Non-Operator does not so elect, this Operating Agreement shall thereupon terminate. Upon the effective time of resignation, or removal or change of Operator, Operator shall surrender possession of and deliver to the successor Operator all facilities and equipment used hereunder, all pertinent accounting books and records, and all data pertaining to Operator's conduct of operations hereunder. The termination of the rights of either party hereto as Operator shall not terminate any other rights or interests of such party in its separate capacity as a working interest owner under this Operating Agreement nor shall such termination relieve such Operator of any of its obligations, as Operator, therefore accrued.

5. The parties hereto shall each own an undivided one-half (1/2) interest in (1) all substances produced and saved from said lands pursuant hereto and under said lease, after deducting therefrom any part (a) used by Operator for drilling, operating,

camp and other production or development purposes, for repressuring, recycling, stimulation of production, increasing ultimate recovery, (b) unavoidably lost, and (c) constituting a lease royalty share, when taken in kind, and (2) all facilities, materials, supplies and equipment acquired by Operator, the cost of which is included as a chargeable expense hereunder.

6. Exhibit B entitled "Accounting Procedure", attached hereto and made a part hereof, shall determine the chargeable costs and expenditures hereunder. In the event of any inconsistency or conflict between the provisions of this Agreement and those of the Accounting Procedure, the provisions of this Agreement will control. Except as otherwise expressly provided in this Agreement, all costs and expenses incurred by Operator in conducting operations hereunder including, without limitation, the drilling, completing, testing, equipping, operating and abandoning of wells on said lands shall be borne equally by McDermott and Shell, and all such costs and expenses shall be "chargeable expense" hereunder.

7. The parties hereto shall endeavor to agree upon the wells, other than said test well and second test well, to be drilled hereunder, the locations thereof, the time and order of the drilling of such wells, and the depths to which the same shall be drilled. In the event the parties hereto fail to agree with respect to the drilling of any particular well and either party desires to drill that or any other well (any such well being hereinafter called "optional well") on said lands, then such party (hereinafter called "proposing party") shall give to the other party (hereinafter called "nonproposing party") written notice thereof, which written notice shall specify the location, the approximate depth, and estimated cost of the proposed optional well. Nonproposing party shall have fifteen (15) days after the giving of such notice within which to notify proposing party whether or not proposing party elects to participate in, i.e., bear its proportionate share of the cost of such optional

well at the designated location. Failure of nonproposing party to reply to the original notice within said fifteen-day period shall be deemed a refusal to participate in the cost of such well. If the nonproposing party does not so elect to participate in the drilling of such well, then proposing party shall have ninety (90) days after the expiration of said fifteen-day period, and no longer, in which to commence operations for the drilling of such well at a location designated in the notice. If the drilling of such well is not so commenced by proposing party, then proposing party's notice of intention to drill such well shall be in no further force and effect and any subsequent drilling at that location shall be subject to like further notice and opportunity on the part of nonproposing party to elect whether or not to participate therein as hereinabove provided. Operator, whether or not it is the proposing party, shall conduct all drilling and other operations in connection with such well and, in the event nonproposing party does not elect to participate in the cost of such well, the entire cost thereof, determined in accordance with Exhibit B, of drilling, completing, testing and equipping (including the cost of completion equipment enumerated in paragraph 2 hereof), and operating, or if a dry hole, drilling, plugging and abandoning, such well and the payment of royalties with respect thereto shall be chargeable to and borne by proposing party. Operator, at its election and within thirty (30) days after receiving a request to drill such a well, may submit an estimate of the cost thereof to proposing party and shall not be obligated to drill such well unless, within thirty (30) days after submitting such estimated cost, the proposing party shall have advanced to Operator the whole of such estimated cost. If such well, when completed, obtains production of oil, gas or other hydrocarbon substances in paying quantities then the proposing party shall own (notwithstanding the provisions of paragraph 5 hereof) and shall

be entitled to receive all of the production therefrom (less royalty payable in kind with respect thereto) until proposing party shall have been reimbursed out of such well's production for one hundred per cent (100%) of the cost of operating such well to the time of reimbursement plus two hundred per cent (200%) of the cost of drilling, completing, testing and equipping such well until such time as proposing party has been so reimbursed, such well, together with all equipment therein or used in connection therewith (to the extent that the proposing party has been charged with the costs thereof as herein provided) shall be owned by such proposing party. When such reimbursement has been had, the parties shall each own an undivided one-half (1/2) interest in and to such well and equipment and in and to all of the production therefrom thereafter obtained and all costs thereafter incurred in connection with such well shall be a chargeable expense hereunder.

8. Except for the test wells provided in paragraph 2 hereof, all wells drilled hereunder by Operator shall be drilled on a competitive contract basis, bids being obtained from at least three responsible drilling contractors, if available; provided, however, that Operator may elect to employ its own crew, tools and equipment in the drilling of wells, but in such event the charge therefor shall not exceed that generally prevailing in the district for like depths and formations to be tested.

9. All taxes required to be rendered or paid in connection with the operations or production hereunder except Federal and State income taxes and any State franchise, license or other similar tax required for the maintenance of corporate existence, shall be rendered and paid by Operator and charged as an expense hereunder except that any taxes on or measured by the substances in or under or that may be produced, saved or sold from said lands, or upon the proceeds or net proceeds derived therefrom, properly allocable to any royalty or overriding royalty shall be charged to the royalty

or overriding royalty holders to the extent permitted by law or contract.

10. Operator shall:

- (a) Conduct operations hereunder with reasonable diligence and in accordance with good oilfield practice and in compliance with all laws, regulations and codes now or hereafter enforced affecting the same.
- (b) Permit Non-Operator's representatives at all reasonable times to observe and inspect operations hereunder, to take samples of all cores and cuttings in any well drilled under this agreement, to obtain copies of the well logs and histories, any electrical logs or any survey made of any well, and be otherwise fully informed at all times as to the progress and results of such operations.
- (c) Pay and discharge promptly all costs and expenses in connection with operations hereunder and shall keep said lands and all personal property used in connection with such operations thereon free and clear of all liens and encumbrances on account of any claim arising out of such operations.
- (d) Comply with the requirements of the applicable workmen's compensation and/or employer's liability laws of the State of Wyoming and carry public liability insurance with limits of \$20/40,000.00, automobile public liability insurance with limits of \$25/50,000.00 and automobile property damage insurance with a limit of \$5,000.00. All premiums applicable to the protection provided shall be

chargeable as an expense hereunder. All losses not covered by standard form policies of insurance for hazards as above set out shall be borne by the parties hereto as their interests appear at the time of any losses.

- (e) Make no expenditure constituting chargeable expense hereunder for any item in excess of \$10,000.00 without the prior written approval of Non-Operator except for drilling or other operations authorized or required pursuant to this Agreement, normal operating expenditures, and emergency expenditures necessary to protect said lands and the property used thereon by Operator in conducting operations hereunder.
- (f) Keep all of said leases as to said lands in good standing and be responsible for all of the obligations of the lessee (or optionee) thereunder, including the payment of rentals, royalties and overriding royalties with respect thereto, provided, however, that until the leases and options described in Exhibit A are assigned to McDermott as provided in article 3 hereof Shell will continue to pay the rentals provided in said leases (or options) and upon presentation of Shell's invoice therefor, McDermott shall reimburse Shell for one-half (1/2) of the amount of the payments so made.

11. Each of the parties hereto shall take in kind its respective share of all oil, gas and other hydrocarbon substances produced and saved hereunder and shall be responsible for the disposition thereof. Neither party hereto shall sell its respective share of said substances for less than the prevailing market price in the field of production.

12. The performance of any party's obligations hereunder, other than the obligation to make payment of amounts due hereunder, may be delayed or suspended at any time while, but only so long as, such party is hindered in or prevented from performance by act of God, accident, strike, lockout, operation of law, war or national emergency, governmental regulation, weather conditions which would prevent or render performance abnormally expensive or difficult, unavailability of labor or materials in the open market, or any cause whether similar or dissimilar, beyond such party's reasonable control.

13. Either party hereto shall have the right to relinquish such party's interest under any of said leases as to all or any part or parts of said lands in the following manner:

Either party (herein called "offering party") may at any time or from time to time but not less than sixty (60) days prior to the accrual of the next annual rental under such lease, notify the other party (herein called "other party") in writing that offering party desires to surrender such lease pursuant to the terms thereof as to all or any part or parts of said lands covered thereby (hereinafter called "relinquished lands"). Within fifteen (15) days after the giving of such notice the other party shall give written notice to offering party electing to join in a surrender of such lease as to the relinquished lands or to take an assignment of offering party's interest therein, failure to give such notice within the fifteen-day period being deemed an election to join in a surrender.

If the other party elects to take an assignment, offering party shall execute and deliver to the other party an assignment of offering party's said interest subject to any requisite approvals by the Secretary of the Interior or the State Board of Land Com-

missioners of the State of Wyoming. Upon receiving such assignment, the other party shall (1) be wholly responsible for the performance of the lessee's or (optionee's) obligations accruing thereafter under such lease, and will save and hold offering party wholly free and harmless from any loss or damage caused by or resulting from other party's failure to perform such obligations, and (2) compensate the offering party for such party's share of the depreciated value of any physical property (the cost of which is a chargeable expense hereunder) on or used in connection with the relinquished land, such value to be determined in accordance with the provisions of Exhibit B.

If the other party does not elect to take an assignment, then the parties hereto shall forthwith join in a surrender of such lease as to the relinquished lands.

Any relinquishment hereunder shall be effective from and after the date of delivery of an assignment hereunder to the other party or the effective date of filing such surrender, and the relinquished lands shall be excluded from the operation of this agreement, but nothing herein contained shall: (a) operate to relieve McDermott of its obligation to drill the first test well as provided in paragraph 2 hereof, or (b) relieve the offering party of any liability or obligation with respect to the relinquished lands accruing prior to the effective date of relinquishment.

14. Neither party hereto shall, as to any of said lands, assign, sublet or otherwise transfer such party's said interest therein or any part thereof, or any interest in this Agreement, to anyone other than a parent, affiliate or subsidiary corporation of the assigning party or a corporation or person or persons succeeding to substantially all of the assigning party's oil or gas

producing business in the State of Wyoming, without first obtaining the written approval of the other party hereto.

15. Any notice or instrument to be given or delivered to McDermott hereunder may be given or delivered by delivering the same to any officer of McDermott in person or by mailing the same by registered mail, postage prepaid, addressed to McDermott at 222 Midland Savings Building, Denver, Colorado. Any notice or instrument to be given or delivered to Shell hereunder may be given or delivered by delivering the same in person to any officer of Shell or by mailing the same by registered mail, postage prepaid, addressed to Shell at Shell Building, 1008 West Sixth Street, Los Angeles 17, California. Any notice or instrument transmitted by mail shall be deemed to have been given to the addressee at the expiration of forty-eight (48) hours after mailing of the same by registered mail as aforesaid. The address to which any notice or instrument may be delivered may be changed by like notice.

16. Operator shall not discriminate against any applicant for employment because of race, creed, color or national origin and shall require an identical provision to be included in all subcontracts.

17. The term of this agreement shall be deemed to have commenced on the date hereof and, unless sooner terminated as hereinbefore provided, shall continue thereafter so long as said lease, or any extension or renewal thereof, or any lease or leases taken in lieu thereof, shall be in force and effect as to any portion of said lands, and until all of the property used hereunder has been removed and disposed of and final settlement has been made between the parties hereto in liquidating the accounts.

18. This agreement shall bind and inure to the benefit of the respective successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties have executed this
agreement as of the day and year first above written.

J. PAT McDERMOTT & COMPANY, INC.

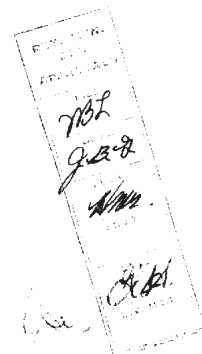
By *J. F. Sullivan*
Vice President

By *L. C. Sullivan*
Assistant Secretary

STELL OIL COMPANY

By *W. J. Porter*
Vice President

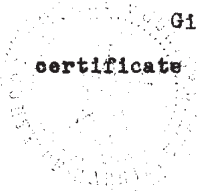
By *W. J. Porter*
Assistant Secretary



STATE OF TEXAS)
) ss.
COUNTY OF HARRIS)

On this 21st day of February, 1952, before me
appeared T. P. Hull, Jr., to me personally known,
who, being by me duly sworn, did say that he is the Vice Presi-
dent of J. RAY McDERMOTT & COMPANY, INC., a Delaware corporation,
and that the seal affixed to said instrument is the corporate seal
of said corporation and that said instrument was signed and sealed in
behalf of said corporation by authority of its board of directors,
and said T. P. Hull, Jr. acknowledged said instrument
to be the free act and deed of said corporation.

Given under my hand and seal the day and year in this
certificate first above written.


Paul H. Womack
Notary Public in and for said
county and state.

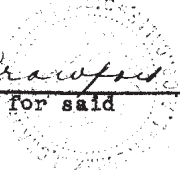
My commission expires:
June 1, 1953

PAUL H. WOMACK, Notary Public
in and for Harris County, Texas

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On this 28th day of April, 1952, before me
appeared S. F. Bowlby, to me personally known, who,
being by me duly sworn, did say that he is the Vice President of
SHELL OIL COMPANY, a Delaware corporation, and that the seal af-
fixed to said instrument is the corporate seal of said corporation
and that said instrument was signed and sealed in behalf of said
corporation by authority of its board of directors, and said
S. F. Bowlby acknowledged said instrument to be
the free act and deed of said corporation.

Given under my hand and seal the day and year in this
certificate first above written.


Mildred M. Crawford
Notary Public in and for said
county and state.

My commission expires:
December 11, 1955

EXHIBIT A

(All lands situated in Sheridan County, Wyoming -
recording data refers to records in Office of
County Clerk of such County)

1. Option Agreement dated July 28, 1950 from Lucille G. Kallerud as Optionor to Shell, as Optionee, providing for a reservation by Optionor of a one-half per cent (1/2%) overriding royalty with respect to U. S. Oil and Gas Lease, Wyoming 02312 dated October 1, 1950 issued to Lucille G. Kallerud covering, among other lands, the following described land:

Township 58 North, Range 84 West, 6th P.M., Wyoming
Section 18: Lot 1
Section 19: Lot 2, SE $\frac{1}{4}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$

containing 203.03 acres, more or less.

2. Option Agreement dated July 28, 1950 from J. F. Mahoney as Optionor to Shell, as Optionee, providing for a reservation by Optionor of a one-half per cent (1/2%) overriding royalty with respect to U. S. Oil and Gas Lease, Wyoming 02311 dated October 1, 1950 issued to J. F. Mahoney covering the following described land:

Township 58 North, Range 84 West, 6th P.M., Wyoming
Section 30: Lots 1, 2, SE $\frac{1}{4}$ NW $\frac{1}{4}$

Township 58 North, Range 85 West, 6th P.M., Wyoming
Section 25: N $\frac{1}{2}$ N $\frac{1}{2}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$
Section 26: NW $\frac{1}{4}$ NE $\frac{1}{4}$

containing 359.40 acres, more or less.

3. U. S. Oil and Gas Lease, Buffalo 039566, dated February 1, 1948 issued to Anne E. Shaw, as Lessee, assigned to Shell by Assignment of Oil and Gas Lease dated January 30, 1950 providing for a reservation by Assignor of a one-half per cent (1/2%) overriding royalty covering, among other lands, the following described land:

Township 58 North, Range 85 West, 6th P.M., Wyoming
Section 13: Lot 4
Section 23: S $\frac{1}{4}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$
Section 24: SE $\frac{1}{4}$ NE $\frac{1}{4}$

containing 335.45 acres, more or less.

4. State of Wyoming Oil and Gas Lease No. 0-3591 dated January 16, 1946 issued to Frank W. Winegar, as Lessee, assigned to Shell by Assignment of Oil and Gas Lease dated February 12, 1946, covering, among other lands, the following described land:

Township 58 North, Range 85 West, 6th P.M., Wyoming
Section 23: NW $\frac{1}{4}$ SW $\frac{1}{4}$, S $\frac{1}{4}$ SW $\frac{1}{4}$

containing 120.00 acres, more or less.

5. State of Wyoming Oil and Gas Lease No. 0-10531 dated November 16, 1950 issued to Robert J. Connaghan, as Lessee, assigned to Shell by Assignment of Oil and Gas Lease dated January 4, 1951, covering the following described land:

Township 58 North, Range 85 West, 6th P.M., Wyoming
Section 26: N $\frac{1}{2}$ NW $\frac{1}{4}$

containing 80.00 acres, more or less.

6. Oil and Gas Lease dated January 9, 1946, recorded in Book 61 of Deeds at page 439 from Anna L. Trusler, formerly Anna L. Kester, and A. R. Trusler, her husband, as Lessors, to Frank W. Winegar, as Lessee, assigned to Shell by Assignment of Oil and Gas Lease dated February 12, 1946, recorded in Book 74 of Deeds at page 58, covering the following described land:

Township 58 North, Range 84 West, 6th P.M., Wyoming
Section 19: Lots 1, 3, 4, SE $\frac{1}{4}$ SW $\frac{1}{4}$
Section 30: NE $\frac{1}{4}$ NW $\frac{1}{4}$

Township 58 North, Range 85 West, 6th P.M., Wyoming
Section 13: Lots 1, 2 and 3
Section 24: N $\frac{1}{2}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$, E $\frac{1}{2}$ W $\frac{1}{2}$

containing 681.07 acres, more or less.

7. Oil and Gas Lease dated August 4, 1950, recorded in Book 81 of Deeds at page 52-3 from Elsie B. Barry, a single woman, as Lessor, to Argo A. Hawkins, as Lessee, assigned to Shell by Assignment of Oil and Gas Lease dated August 7, 1950, recorded in Book 81 of Deeds at page 54, covering the following described land:

Township 58 North, Range 85 West, 6th P.M., Wyoming
Section 24: W $\frac{1}{2}$ W $\frac{1}{2}$

containing 160.00 acres, more or less.

- 8 Oil and Gas Lease dated July 25, 1950, recorded in Book 81 of Deeds at page 76 from George Buszkiewicz and Rose Buszkiewicz, husband and wife, as Lessors, to Shell as Lessee, covering the following described land:

Township 58 North, Range 84 West, 6th P.M., Wyoming
Section 30: Lot 3, SW $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$

containing 159.97 acres, more or less.

EXHIBIT A

Paragraph 8 (continued)

Oil and Gas Lease dated January 7, 1946, recorded in Book 62 of Deeds at page 132, from John E. Buszkiewicz, a single man, as Lessor, to Frank W. Winegar, as Lessee, assigned to Shell by Assignment of Oil and Gas Lease, dated March 4, 1946, recorded in Book 74 of Deeds at page 14, covering the following described lands:

Township 58 North, Range 84 West, 6th P. M., Wyoming
Section 30: Lot 3, SW $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$
containing 159.97 acres, more or less.

An undivided one-half interest in John E. Buszkiewicz, a single man, and an undivided one-half interest in George Buszkiewicz and Rose Buszkiewicz, husband and wife.

Oil and Gas Lease dated July 25, 1950 recorded in Book 81 of Deeds at page 74 from Ignace Buszkiewicz and Anna Buszkiewicz, husband and wife, as Lessors, to Shell as Lessee, covering the following described land:

Township 58 North, Range 84 West, 6th P.M., Wyoming
Section 30: Lot 4, SE $\frac{1}{4}$ SW $\frac{1}{4}$, S $\frac{1}{2}$ SE $\frac{1}{4}$

Township 58 North, Range 85 West, 6th P.M., Wyoming
Section 25: SW $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$
Section 26: E $\frac{1}{2}$ NE $\frac{1}{4}$

containing 520.15 acres, more or less.

10. Oil and Gas Lease dated February 20, 1946, recorded in Book 62 of Deeds at page 129 from Franklin Orr Baker and Dena Baker, husband and wife, and Ethel Shanor and Jack Shanor, wife and husband, and Chester Arthur Baker, as Lessors, to Frank W. Winegar as Lessee, assigned to Shell by Assignment of Oil and Gas Lease dated March 15, 1946, recorded in Book 81 of Deeds at page 421, covering the following described land:

Township 58 North, Range 84 West, 6th P.M., Wyoming
Section 19: NE NW $\frac{1}{4}$, NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$
Section 30: N $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$

containing 480.00 acres, more or less.

Exhibit A

EXHIBIT "B"

ACCOUNTING PROCEDURE

The purpose of this Exhibit B, Accounting Procedure, is to establish a method of accounting which will truly reflect the Operator's actual costs, so that Operator will neither gain nor lose in relation to Non-Operator by reason of the fact that it conducts the operations, and in the event that at any time any of the methods of determining charges or credits prove unfair or inequitable to Operator or Non-Operator, or will not effectuate the purpose of this Accounting Procedure, the parties will agree upon a new method of determining such charges or credits which will effectuate the purpose, and this new method will be put into effect on such date as may be agreed upon.

I. DEFINITIONS, BILLING, RECORDS AND REPORTS

(1) The term "said property" as used herein shall be construed to mean the real and personal property subject to the Operating Agreement to which this accounting exhibit is attached, and the term "chargeable expense" as used herein shall mean all expenditures which, pursuant to said Operating Agreement, are to be borne equally by the parties thereto.

(2) The term "Operator" as used herein shall, at any time, be construed to mean the party then designated pursuant to such Operating Agreement.

(3) The term "Non-Operator" as used herein shall, at any time, be construed to mean the party hereto other than the party then designated as Operator pursuant to such Operating Agreement.

(4) The Operator shall at all times maintain and keep true and correct records of the production and disposition of all oil, gas, and other hydrocarbon substances, and of all costs and expenditures incurred, as well as all other data necessary or proper for the settlement of accounts between the parties hereto in connection with their rights and obligations under said Operating Agreement. Such records shall be open at all reasonable times for inspection by duly authorized representatives of Non-Operator.

(5) On or before the 10th day of each calendar month, Operator shall submit to Non-Operator an inventory of oil and other hydrocarbon substances as of 7:00 A.M. on the first day of that month, together with statements showing production, distribution, and allocation of such substances during the preceding calendar month, and dates of runs, gravities, gross and net quantities, B. S. & W. content, vapor pressure, or other data upon which the value of substances is based. This distribution and allocation shall be accounted for in such a manner that each party will receive proper credit for its proportionate share in quantity, quality, and value.

(6) Operator shall render a bill to Non-Operator on or before the last day of each month for Non-Operator's share of costs and expenditures for operations during the preceding calendar month. Accompanying such bill shall be statements itemized sufficiently to reasonably fill requirements of Non-Operator; but in any event Operator will not be required to furnish Non-Operator with copies of original documents such as invoices, storehouse tickets, etc. Non-

Operator shall pay such bill within ten (10) days after receipt thereof. Upon request Operator may require Non-Operator to advance his share of estimated cash outlay for the current month's operations.

(7) Payment and/or acceptance of any statement or bill shall not prejudice the right of the Non-Operator to protest or question the correctness thereof. Except pursuant to the mutual agreement of Operator and Non-Operator, Operator shall not adjust any item more than one year after the close of the calendar year in which itemized statement thereof is rendered.

II. DEVELOPMENT AND OPERATING EXPENDITURES

All expenditures necessary to develop, maintain, operate, and abandon said property in accordance with said Operating Agreement shall constitute chargeable expense hereunder. Without in any way limiting the generality of the foregoing, such expenditures shall include:

(1) All rentals and royalties paid by Operator pursuant to said Operating Agreement.

(2) Cost of permits, licenses, and bond premiums necessary in the performance of Operator's duties under said Operating Agreement.

(3) Salaries and wages of Operator's employees, other than employees compensated for under subdivisions (13), (14) and (15) of this Section II, directly engaged in operations of said property, plus that portion of taxes and assessments imposed by governmental authority on or measured by the pay of employees, and any group insurance, sick pay (not recoverable from insurance), vacations, travel allowances, pensions, and other benefits accorded in general to employees by Operator computed to be applicable to such salaries and wages.

(4) Materials, equipment, and supplies purchased by Operator or furnished from its storehouse stocks or from its other properties for use on said property. Insofar as is practical and consistent with efficient and economical operation, only such materials shall be purchased for or transferred to said property as are required for immediate use, and the accumulation of materials and supplies on the said property shall be kept to a minimum.

(5) Transportation of employees, equipment, material, and supplies to, from, and between properties covered by said Operating Agreement, except as follows:

(a) No charge shall be made to chargeable expense for moving equipment, material, or supplies from Operator's storehouses or other property of the Operator to said property, for a distance greater than would be necessary to move such equipment, material, or supplies from the nearest reputable supply store where such items are available to purchasers generally.

(b) No charge shall be made to chargeable expense for moving surplus equipment or material from said property to Operator's storehouse for a distance greater than to the nearest point where such surplus equipment or material could be sold at reasonable prices, nor shall a charge be made for moving materials to other properties belonging to Operator, except by special agreement.

(c) Each party hereto, at its sole cost and expense, shall remove from said property its proportion of surplus equipment or material, which has been divided in kind.

Exhibit B

(6) Contract services and utilities procured from outside sources.

(7) Use of and service by Operator's exclusively-owned equipment, facilities, and utilities as provided in subdivision (5) of Section III hereof.

(8) Damages or losses occasioned by fire, flood, storm, accident or other cause or condition not controllable by Operator through the exercise of reasonable diligence, whether or not similar to the causes or conditions herein specifically enumerated, and not compensated for by insurance or otherwise. Operator shall furnish to Non-Operator a written notice of damages suffered from any source whatsoever immediately after report of the same has been received by Operator.

(9) Expenses of litigation, liens, judgments and liquidated claims incurred in or resulting from the operations hereunder. No charges for services of Operator's legal staff or for fees or expenses of outside attorneys shall be made except upon prior agreement between Operator and Non-Operator.

(10) Operator shall procure and maintain Workmen's Compensation Insurance covering development and operations hereunder, and the net premiums therefor shall be treated as a part of the actual cost of development and operations.

(11) All taxes and assessments paid by Operator for the benefit of Operator and Non-Operator, including ad valorem, personal property, mineral rights, gross production, and any other taxes and assessments levied and assessed against said property, the production therefrom or the operations thereon. (No income, franchise, capital stock and other such general taxes are to be included as chargeable expense.)

(12) As to insurance carried for the benefit of Operator and Non-Operator, the net premium thereon shall be included hereunder as chargeable expense.

(13) To cover cost of ordering, handling and storing materials, equipment and supplies done at Operator's sole expense, Operator shall make the following charges:

(a) One per cent (1%) of the cost of materials, equipment and supplies delivered from vendor direct to said property.

(b) Three per cent (3%) of the cost of tubular goods (2" in diameter and larger) and major equipment such as derricks, tanks, boilers, compressors, engines, pumps, motors (3 H.P. and more), oil and gas separators (traps), pumping units, and gear reduction units delivered from Operator's storehouse to said property.

(c) Seven per cent (7%) of the cost of all other material and supplies delivered from Operator's storehouse to said property.

These charges are in lieu of any other charge for the cost of operating and maintaining Operator's purchasing and stores offices.

Exhibit E

(14) A proportionate share of the salaries and expenses of the field and district superintendent, foreman, clerical and other employees engaged in carrying on the operations hereunder, whose time is not allocated directly to said property, plus that portion of taxes and assessments imposed by governmental authority on or measured by the pay of employees, and any group insurance, sick pay (not recoverable from insurance), vacations, travel allowances, pensions, and other benefits accorded in general to employees by Operator computed to be applicable to these salaries and wages and a proportionate share of the expenses in maintaining and operating a field and district office, facilities for housing and boarding employees, and other general facilities used in conducting the operations of said property, such charges to be apportioned to all properties served on an equitable basis consistent with the services performed.

(15) Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of Operator and any part of the expenses of Operator's general offices on the following basis:

(a) Two Hundred Fifty Dollars (\$250.00) per month (prorated for periods of less than one month) for each well upon which drilling, redrilling or other remedial operations involving the use of drilling equipment and drilling crew are being performed, computed from the date of commencement of spudding-in operations on such well and continued until it is placed on production, abandoned or operations are suspended.

(b) Forty Dollars (\$40.00) per well per month for the first five (5) producing wells.

Thirty Dollars (\$30.00) per well per month for the second five (5) producing wells.

Twenty Dollars (\$20.00) per well per month for all producing wells over ten (10).

For determining charges the status of wells shall be as follows:

(a) An in-put or injection well shall be considered the equivalent of a producing oil well.

(b) A producing gas or condensate well shall be considered the equivalent of a producing oil well.

(c) Wells permanently shut down but on which plugging operations are deferred, shall be dropped from the well schedule at the time the shut down is effected. During the time a well is being plugged it shall be considered the equivalent of a producing oil well.

(d) Wells which are shut down temporarily (other than for proration) and later placed on production: If and when a well is shut down and not produced or not worked on for a period of more than one half a calendar month, it shall not be included on the well schedule for such month.

Exhibit B

(e) Whenever drilling crew and equipment are used in operations, such as for wells plugged back, drilled deeper, reconditioned or prepared for gas injection, such wells shall be considered the equivalent of drilling wells for the period required for such operations. Time consumed for rigging up and tearing out shall not be included.

(f) Waste water disposal wells shall not be included on the well schedule.

(16) The charges provided for under subdivisions (13), (14) and (15) of this Section II shall be subject to review and possible revision from time to time (but not more often than once every twelve months) if in practice they are found to be insufficient or excessive. Any revision in rates agreed upon by the Operator and Non-Operator shall not be applied retroactively.

(17) Any other expenditure incurred by Operator for the necessary and proper development, maintenance, operation, and abandonment of said property.

III. BASIS OF CHARGES

(1) Outside Purchases: All materials and equipment purchased and all service procured from outside sources shall be charged at their actual cost to Operator, after deducting any and all trade and/or cash discounts received by Operator.

(2) New Materials Furnished by Operator (Condition "A").

(a) New materials transferred to said property from Operator's storehouse or other properties shall be priced f.o.b. the nearest reliable supply store at current new price less trade, quantity, and cash discounts customarily taken by Operator. This will include cost of tubular goods (2" in diameter and larger) and major equipment such as derricks, tanks, boilers, compressors, engines, pumps, motors (3 H.P. and more), oil and gas separators (traps), pumping units, and gear reduction units. Smaller new materials such as valves, fittings, supplies, etc., where the current new prices cannot be readily ascertained or where it is not practicable to use current new prices may, for the purpose of consistency and convenience, be charged at Operator's regular storehouse prices.

(b) Gasoline, kerosene and other light oils furnished by Operator shall be at prices approximating posted tank wagon prices. Lubricating oils and greases shall be at prices approximating commercial consumer's price. In no event shall such prices exceed tank wagon or commercial consumer's prices for the respective products. Crude oil shall be priced at the available posted and published field price. Gas and liquefied products shall be at prices approximating market value.

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(3) Secondhand Materials Furnished by Operator (Conditions "B" and "C"):

(a) Tubular goods (2" and over), fittings, machinery and other equipment which is in sound and serviceable condition at date of transfer, will be classed as Condition "B" and charged at seventy-five per cent (75%) of the current price of new materials.

(b) Tanks, derricks, and buildings or other equipment involving erection costs at time of transfer shall be charged on a basis not to exceed seventy-five per cent (75%) of knocked-down current new price for similar materials.

(c) Other secondhand materials, such as units of machinery or other equipment that is serviceable, but substantially not good enough to be considered first-class secondhand material when transferred to the operation hereunder, shall be classed as Condition "C" and charged at fifty per cent (50%) of the current new price.

(d) There may also be cases where some items of major equipment, due to their unusual condition, should be fairly and equitably priced by Operator, subject to approval of Non-Operator.

The current price of new materials is to be in accordance with the provisions under subdivision (2) above, disregarding the regular cash discount.

(4) Warranty of Materials Furnished by Operator: Operator does not warrant the materials furnished from its storehouse or other properties and, in case of defective materials, credit shall not be passed until adjustment has been received by Operator from manufacturer or his dealer or agent who has warranted same.

(5) Operator's Exclusively-owned Facilities: The following rates shall apply to service rendered by facilities and equipment owned exclusively by Operator provided such rates are not in excess of current prevailing rates for like service and equipment available in the area.

(a) Water service, gas and power, booster and compressor services, use of roads, etc., at cost of such services including operation, maintenance, insurance, taxes and allowance for depreciation.

(b) Automotive Equipment: At rates commensurate with cost of ownership and operation and in line with schedule of rates adopted by Operator for use in his operations. Charges will be based on use in actual service on or in connection with the development and operation of said property.

(c) A fair rate shall be charged for the use of drilling and other machinery and equipment exclusively owned by Operator while used hereunder to cover maintenance, repairs, depreciation, and the service furnished said property. Drilling equipment lost in the hole or damaged beyond repair shall be charged at a fair depreciated value.

Exhibit B

(d) Rates shall be revised from time to time when found to be either excessive or insufficient, but not more often than once every six months.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIALS

(1) Materials or equipment transferred from said property to Operator shall be credited to chargeable expense and included in the monthly statement of operations for the month in which the materials or equipment are removed from said property.

(2) Materials or equipment transferred from said property to Non-Operator shall be paid for by Non-Operator immediately following delivery of materials or equipment. Operator shall thereupon immediately pass credit to chargeable expense and include the same in the monthly statement of operations for the month in which the materials or equipment were paid for by Non-Operator.

(3) Division in kind of materials or equipment constituting a part of said property shall be made between Operator and Non-Operator in proportion to their respective interests in said property. Each party will thereupon be charged individually with the value of the materials or equipment received or receivable and corresponding credits will be made to chargeable expense by Operator, and such credits shall appear in the same monthly operating statement.

(4) Sales to outsiders of major materials or equipment constituting a part of said property shall be made only with the consent of Non-Operator as to both terms and price and where made the proceeds shall be credited by Operator to chargeable expense at the full amount collected from vendee. Any claims by vendee for defective materials or otherwise shall be charged back to chargeable expense, if and when paid by Operator.

(5) No used surplus materials or equipment may be removed from said property without consent of Non-Operator's authorized representative except as herein provided in following subdivision (6) of this Section IV or unless such removal is for safe keeping, in which event it must be kept separate.

(6) Operator on behalf of itself and Non-Operator shall have the right to remove from said property, and dispose of, junk materials and equipment not required for immediate or future operation of said property. The net proceeds from the sale or removal of all such materials shall be credited to chargeable expense.

V. BASIS OF PRICING MATERIALS TRANSFERRED FROM PROPERTY

Materials and equipment transferred from said property to either Operator or Non-Operator or divided in kind between them, unless otherwise agreed, shall be valued on the following basis of condition and price: (New price as used in the following subdivisions shall have the same meaning and application as that used above in Section III.)

(1) New Materials (Condition "A"): being new equipment or supplies purchased or procured for the property but never used thereon: at one hundred per cent (100%) of current new prices.

Exhibit B

(2) Good Secondhand Materials (Condition "E"): being good serviceable materials which are further usable without repair: at seventy-five per cent (75%) of current new prices.

(3) Other Used Materials (Condition "C"): being materials further usable for their original function only after repair and reconditioning: at fifty per cent (50%) of current new prices.

(4) Bad Order Materials (Condition "D"): being materials not further usable for their original function but for possible other service: at twenty-five per cent (25%) of current new prices.

(5) Junk (Condition "E"): being obsolete and unserviceable materials: at prevailing junk prices in the district.

(6) There may also be cases where some items of major equipment due to their unusual condition should be fairly and equitably priced by Operator subject to approval of Non-Operator.

VI. INVENTORIES

(1) Inventories of materials and equipment which are ordinarily considered controllable by operators of oil and gas properties shall be taken by Operator at least once every five years unless waived by Non-Operator.

(2) Written notice of intention to take inventory shall be given by Operator to Non-Operator two weeks before any inventory is to begin, so that Non-Operator may be represented when any inventory is being taken.

(3) Failure of Non-Operator to be represented at the physical inventory shall bind it to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

(4) Reconciliation of inventory with charges to chargeable expense shall be made by the Operator and a list of overages and shortages shall be furnished by the Operator to the Non-Operator.

(5) Inventory adjustments shall be made by Operator for overages and shortages of such materials and equipment as are ordinarily considered controllable by operators of oil and gas properties. Operator shall not be held accountable for thefts or minor shortages not due to a lack of reasonable diligence.

(6) The expense of representatives conducting regular inventories shall not be charged to chargeable expense. The expense of Operator's representative in conducting any special inventories requested shall be charged to the separate account of the party requesting such inventory.

Exhibit B