

2007

Weststar Exploration Company v. Cochrane Resources, INC. : Brief of Appellant

Utah Court of Appeals

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IN THE UTAH COURT OF APPEALS

**WESTSTAR EXPLORATION COMPANY,
INC., a Nevada corporation,**

Plaintiff and Appellant,

vs.

COCHRANE RESOURCES, INC., et al.,

Defendants and Appellees.

Case No. 20070413-CA

OPENING BRIEF OF APPELLANT

**APPEAL FROM THE RULING OF THE EIGHTH DISTRICT COURT IN AND FOR
UINTAH COUNTY, STATE OF UTAH**

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Newfield Rocky Mountains Inc. fka Inland Resources, Inc.

QEP Uinta Basin, Inc.

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JURISDICTION

The Court has jurisdiction over this appeal under Utah Code section 78-2a-3(2)(j).

STATEMENT OF THE ISSUES AND STANDARDS OF REVIEW

This case involves Newfield Rocky Mountains, Inc.; Cochrane Resources, Inc.; P&M Petroleum Management, LLC; and QEP Uinta Basin, Inc.’s (collectively “Newfield”) unauthorized use of four miles of a natural gas pipeline and easement, located in Uintah County, Utah. (R. 371.) Weststar Exploration Company filed a complaint against Newfield alleging trespass and unjust enrichment. The district court entered summary judgment against Weststar after concluding that Weststar had not produced any evidence of ownership in the pipeline and (implicitly) ruling that a mere possessory interest is insufficient to maintain trespass and unjust enrichment claims.

Issue 1: Whether a possessory interest in a pipeline is sufficient to confer standing to maintain trespass and unjust enrichment claims for unauthorized use of the pipeline.

This issue was preserved at R. 901: 34-35.

Standard of Review: “Determinations of the legal requirements for standing are reviewed for correctness.” Jones v. Barlow, 2007 UT 20, ¶10, 154 P.3d 808. In addition, when reviewing the granting of a motion for summary judgment the court views all fact “in the light most favorable to the nonmoving party.” Emergency Physicians Integrated Care v. Salt Lake Cty., 2007 UT 72, ¶8, 167 P.3d 1080.

Issue 2: Whether a person’s affidavit testimony that he transferred property to a company, coupled with documents confirming the transfer, is sufficient to create a disputed issue of fact concerning whether the company currently has an ownership interest in the property. This issue was preserved at R. 410-11.

Standard of Review: “When reviewing a ruling on summary judgment, the court gives no deference to the lower court’s legal conclusions and reviews the issues presented under a correctness standard. Factual disputes are viewed in the light most favorable to the nonmoving party.” Emergency Physicians Integrated Care v. Salt Lake Cty., 2007 UT 72, ¶8, 167 P.3d 1080.

DETERMINATIVE PROVISIONS

Summary Judgment “shall be rendered if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law.” Utah R. Civ. P. 56(c).

STATEMENT OF THE CASE

I. Nature of the Case and Course of Proceedings

On February 9, 2005, Weststar filed a complaint against Newfield Rocky Mountains, Inc.; Cochrane Resources, Inc.; P&M Petroleum Management, LLC; and QEP Uinta Basin, Inc. (collectively “Newfield”) alleging trespass and unjust enrichment.¹ (R. 12.) In April 2006, Newfield filed a motion for summary judgment. (R. 182, 198, 202, 277, 282, 286, 289, 339, 352, 357.) On August 22, 2006, the district court granted Newfield’s motion for summary judgment and dismissed Weststar’s claims “as a matter of law and with prejudice, on the grounds that [Weststar] has produced to the court no evidence of ownership of the pipeline in question.” (R. 539.5.)²

¹ Weststar agreed to dismiss other claims for eviction and preliminary injunction. (R. 410, 901: 4.) Weststar also seeks attorney fees.

² The page between 539 and 540 where this quote is located is not numbered.

On September 28, 2006, Weststar filed a motion to reconsider. (R. 670.) The district court denied Weststar's motion and stated that Weststar should appeal. (R. 835.) The district court also stated that William Gilmore's affidavit testimony and Mr. Gilmore's written assignment of ownership from himself to Weststar was insufficient evidence to establish a genuine issue of material fact concerning whether Weststar has an ownership interest in the pipeline. (R. 835.)

The district court subsequently certified as final its order granting summary judgment pursuant to Utah Rule of Civil Procedure 54(b). (R. 888.) Weststar appeals from the district court's summary judgment order.

II. Statement of Facts

A. Weststar's Interest in the Pipeline

On November 5, 1990, Mr. Gilmore, on behalf of Bonanza Gas Company, Inc., a wholly owned subsidiary of Gilmore Oil & Gas, Inc. (a sole proprietorship) applied with the Department of the Interior Bureau of Land Management for a right-of-way to construct the pipeline at issue in this case. (R. 589.) The BLM is the fee owner of North Bonanza field, and on February 14, 1991, it granted Bonanza "a right to construct, operate, maintain, and terminate" a natural gas pipeline in that area. (R. 597-98.) As Mr. Gilmore testified, he was the sole owner of Bonanza when it obtained the easement and constructed the pipeline in North Bonanza field. (R. 371, 814.)

Bonanza assigned its ownership and easement in the pipeline to Mr. Gilmore.³ (R. 371.) On January 1, 2000, Mr. Gilmore assigned all rights he had, including ownership

³ In the district court, Newfield focused on the lack of evidence that Bonanza passed its interest to Mr. Gilmore. The best evidence that Mr. Gilmore had an interest from Bonanza to pass on to Weststar is the BLM's determination that Weststar is 100% owner of the pipeline. (R. 628.) To the extent there is any remaining question regarding

and easement in the pipeline, to Weststar, a company formed in 2000 and of which Mr. Gilmore is the sole officer, director, and owner. (R. 223-228, 371, 362-65.) This assignment was recorded with the BLM on March 13, 2006. (R. 579.) The BLM considers Weststar 100% owner of the pipeline. (R. 628.)

In the recorded assignment, Mr. Gilmore assigned to Weststar:

- “All Rights of Way, Easements, Surface Fees, Surface Leases, Servitudes and Franchises, insofar as they pertain to the Leases and the wells located on the Leases.” (R. 364.)
- “All permits and licenses of any nature owned, held or operated by Assignor in connection with the Leases, Lands and the wells located on the leases.” (R. 364.)
- “All pumps, casing, rods, tubing, wellhead equipment, separators, heater treaters, tanks, pipelines, gathering lines, flowlines, valves, fittings and all other surface and down hole equipment, fixtures related inventory, gathering and treating facilities, personal property and equipment used in connection with the Leases and the wells located on the Leases and all other interests described above.” (R. 363 (emphasis added).)

An exhibit to the assignment lists the sections and acreages conveyed. (R. 362.) The described scope of the conveyance in the assignment confirms that the pipeline at issue in this case was conveyed to Weststar, especially when compared with the BLM Case Recordation Report of Weststar’s predecessor Bonanza’s right of way application and the rental payment history for the pipeline. (R. 601-630.)⁴

Bonanza Gas Company assigning its interest to Mr. Gilmore, Mr. Gilmore unquestionably became the owner of the pipeline when Bonanza dissolved in 1998 because under Texas law all of its assets automatically would have reverted to Mr. Gilmore as its sole shareholder. Courseview, Inc. v. Phillips Petroleum Co., 312 S.W.2d 197, 203 (Tex. 1957); see also Humble Oil & Refining Co. v. Blankenburg, 235 S.W.2d 891, 893 (Tex. 1951) (“When a corporation is dissolved its property becomes the property of its stockholders in proportion to their respective shares.”). (R. 371, 479, 581-84, 814.)

⁴ See also (i) BLM Right-Of-Way Grant for the Pipeline dated February 14, 1991 and signed by Bill Gilmore on behalf of Bonanza, (ii) Bonanza’s amended application letter

Mr. Gilmore also testified that other entities hold interests in the pipeline.⁵ First, Mr. Gilmore testified that Ted Collins and Herbert E. Ware each hold an 8.33 percent interest in the pipeline stemming from a 1988 operating agreement with Gilmore Oil & Gas, Bonanza's parent company.⁶ (R. 333-34, 430.) The interests held by six other parties pursuant to the 1988 operating agreement were acquired by Mr. Gilmore prior to the commencement of this action. (R. 332-34, 901: 35, 423-453.) Further, Houston Exploration currently owns a fifty percent non-operating interest in the pipeline pursuant to a separate assignment and participation agreement with Weststar.⁷ (R. 804, 822, 901: 35.) Thus, the current owners of the pipeline include Mr. Collins, Mr. Ware, Houston Exploration and Weststar. (R. 362-65, 423-453, 804, 901: 35.)

dated January 7, 1991, (iii) Bonanza's Form 299 Application for Transportation and Utility Systems and Facilities on Federal Lands Right of Way Request, dated November 5, 1990, (iv) Bonanza's Certificate of Incorporation from the State of Texas and Articles of Incorporation listing William C. Gilmore as Bonanza's initial Director, dated December 21, 1990, and (v) BLM Decision of March 13, 2006 re "Assignments of Rights of Way Approved." (R. 547-98.)

⁵ Oddly, Newfield accepts Mr. Gilmore's testimony as evidence that other entities have ownership interests in the pipeline, but entirely discounts Mr. Gilmore's testimony that Weststar has an interest. (R. 338, 901: 11-12, 17.)

⁶ Neither Mr. Collins nor Mr. Ware is an indispensable party under Rule 19(b), despite Newfield's attempt to persuade the trial court otherwise. See Utah R. Civ. P. 19(b); Landes v. Capital City Bank, 795 P.2d 1127, 1132 (Utah 1990) ("Only if a party is found necessary under the rule 19(a) analysis and the party cannot feasibly be joined does a court need to analyze indispensability under rule 19(b)."). Regardless, Weststar has authority to maintain this lawsuit as the operator of the pipeline. (R. 427, 429.)

⁷ While these documents appear in the record in the motion to reconsider phase, it is clear from the transcript of the hearing and from the questioning at the deposition, that the court and all parties had access to both documents prior to the court's summary judgment decision. (R. 332-33, 819-22, 901: 53, 56.) All parties agreed that they could be entered into evidence and considered by the district court, and the court received the evidence. (R. 901: 53, 56.) Moreover, at Mr. Gilmore's deposition, Cochrane's counsel asked "and Houston Exploration has 50 percent under the document that we have seen?" Mr. Gilmore responded "yes."

While Newfield accepts Mr. Gilmore's testimony that Mr. Collins, Mr. Ware, and Houston Exploration have ownership interests in the pipeline, it rejects the same testimony that Bonanza transferred its interest in the pipeline to Mr. Gilmore who in turn transferred the interest to Weststar. Despite Newfield's bald denial, the undisputed evidence establishes that Weststar owns a 1/3 interest in the pipeline. (R. 901: 24.) Newfield presented no evidence that any person or entity other than Weststar owns the remaining 1/3 interest in the pipeline. Moreover, the participation agreement between Weststar and Houston Exploration identifies Weststar as the operator of the pipeline, which recognizes in Weststar a possessory interest in the pipeline.

B. Newfield's Unauthorized Use of the Pipeline

In 1999, unbeknownst to Weststar or its predecessors in interest, the pipeline was reconstructed to permit natural gas in a pipeline owned by QEP to connect with a well owned by Cochrane, P&M (previously Newfield), and QEP. (R. 370-71.) Between May 1999 and June 2005, the pipeline carried natural gas to the well, which was used to fuel the well. (R. 369, 370-71.) Ironically, Weststar's intended use of the pipeline was to transport natural gas produced in wells owned by Mr. Gilmore and/or Gilmore Oil & Gas, Inc. to sell to other wells as operating fuel. (R. 370.) Weststar did not discover the unauthorized reconstruction and use until August 2004, because the Gilmore wells had not been in use in the preceding years. (R. 369-70.) After discovering the reconstruction, Weststar was required to construct a separate pipeline to transport gas from the Gilmore wells. (R. 369-70.) Newfield presented no evidence that any defendant had a right, or even sought permission, to transport gas through the pipeline. (R. 901: 55.)

SUMMARY OF THE ARGUMENT

The grounds for reversal are very simple. First, Utah law requires only a possessory interest to maintain trespass and unjust enrichment claims. Therefore, the district court erred when it dismissed Weststar's claims because Weststar had not proven an "ownership interest" in the pipeline.

Second, even if an ownership interest were required, affidavit and documentary evidence create (at the very least) a question of fact concerning whether Weststar has an ownership interest in the pipeline and, in fact, conclusively establish that Weststar has such an ownership interest. Weststar provided Mr. Gilmore's affidavit stating that Weststar has an ownership interest in the pipeline and supported the affidavit testimony with (i) a copy of the recorded assignment of the pipeline to Weststar and (ii) a participation agreement between Weststar and Houston Exploration concerning the pipeline. In response, Newfield provided no evidence to dispute any of the evidence provided by Weststar. At the very least, there exists a question of fact concerning Weststar's ownership of the pipeline, and therefore summary judgment was inappropriate.

For both reasons, the Court should reverse and remand so the district court can adjudicate of the merits of Weststar's claims.

ARGUMENT

The district court applied the incorrect standard of “ownership” to determine whether Weststar has standing to maintain its claims for trespass and unjust enrichment. Under Utah law, only a possessory interest is required to maintain an action for either claim. Even if an ownership interest were required, however, Weststar provided ample evidence of Weststar’s ownership interest to create a disputed issue of fact for trial. Therefore, the district court erred when it dismissed Weststar’s claims “on the grounds that [Weststar] has produced to the court no evidence of ownership of the pipeline in question.” (R. 539.5.) The Court should reverse.

I. A Possessory Interest is Sufficient to Confer Standing to Maintain Trespass and Unjust Enrichment Claims

First, the district court erred by requiring Weststar to prove ownership instead of a mere possessory interest. Under Utah law, trespass requires the infringement of a right to possession, not the right to ownership. Walker Drug Co., Inc. v. La Sal Oil Co., 972 P.2d 1238, 1243 (Utah 1998). “Trespass is a possessory action. The gist of an action for trespass is infringement on the right of possession.” John Price Assoc., Inc. v. Utah State Conf., Bricklayers Locals Nos. 1, 2, & 6, 615 P.2d 1210, 1214 (Utah 1980). Ownership, therefore, is not required to maintain an action for trespass. In its ruling, the district court stated, “An individual cannot maintain suit against someone for trespass when that individual cannot establish ownership of the property in question. Proof of ownership is a prerequisite.” (R. 535.) This is an incorrect statement of the law.

Similarly, unjust enrichment requires only that (i) “there must be a benefit conferred on one person by another;” (ii) “the conferee must appreciate or have

knowledge of the benefit,” and (iii) “there must be the acceptance or retention by the conferee of the benefit under such circumstances as to make it inequitable for the conferee to retain the benefit without payment of its value.” Desert Miriah, Inc. v. B&L Auto, Inc., 2003 UT 83, ¶13, 12 P.3d 580 (internal quotations omitted). “Unjust enrichment of a person occurs when he has and retains money or benefits which in justice and equity belong to another.” American Towers Owners Assoc., Inc. v. CCI Mechanical, Inc., 930 P.2d 1182, 1192 (Utah 1996) (internal quotations omitted). An ownership interest also is not required to maintain a claim for unjust enrichment. One with a mere possessory interest in a pipeline has standing to maintain unjust enrichment claims when other parties use the pipeline for their benefit without consent.

Wholly apart from ownership (which Weststar also established), Weststar presented evidence of its possessory interest in the pipeline. For example, a participation agreement between Weststar and Houston Exploration appoints Weststar as the operator of the pipeline. (R. 332-33; 901: 16, 53, 56; 785, 804.) An operator of a pipeline has a possessory interest in the pipeline. See New American Oil & Mining Co. v. Troyer, 76 N.E. 253, 254 (Ind. 1905) (“[T]he purpose of the parties is the exploration for oil and gas. The landowner intends to part with, and the operator intends to acquire, no other right than the exclusive privilege of entering upon the land, and with as little injury as possible to the possession, or the freehold, and for mutual profit in the discovery, put down wells and mine and market the product, whatever it may be.”) (R. 448, 782). This agreement was in evidence at the summary judgment hearing. Thus, the district court erred in entering summary judgment because, at the very least, Weststar presented undisputed evidence that it has a possessory interest in the pipeline as its operator.

II. Weststar Presented Sufficient Evidence of Its Ownership Interest to Preclude Summary Judgment

Not only did Weststar present evidence of its possessory interest in the pipeline, but it also provided (undisputed) testimony and documentary evidence that Weststar has an ownership interest in the pipeline. In particular, Mr. Gilmore's affidavit, with supporting documentary evidence, establishes Weststar's ownership interest in the pipeline. Weststar's ownership interest is also confirmed by none other than the Department of the Interior Bureau of Land Management, which considers Weststar the owner of the pipeline. (R. 628.)

The evidence provided by Weststar demonstrates that it has an ownership interest in the pipeline. Mr. Gilmore's affidavit states that he was the sole owner of a company called "Bonanza Gas Company," the entity that built the pipeline. (R. 371.) The affidavit describes the location of the pipeline and easement at issue in this case. (R. 371.) The affidavit then states that Bonanza assigned its interest in the pipeline to Mr. Gilmore and that Mr. Gilmore later assigned the same interest to Weststar.⁸ (R. 371-72.) In addition to Mr. Gilmore's undisputed testimony, Weststar provided to the district court a copy of the recorded assignment from Mr. Gilmore to Weststar. (R. 362-66, 372.)

It is difficult to understand what would constitute more straightforward evidence of Weststar's ownership of the pipeline than the recorded assignment by which Weststar obtained ownership, something confirmed by the BLM. At the very least, this assignment creates a genuine issue of material fact about Weststar's ownership of the pipeline. Instead of disputing this, Newfield asserts that Bonanza never assigned its interest to Mr. Gilmore. However, even if Bonanza had not assigned this interest, the

⁸ Mr. Gilmore had provided similar testimony in his deposition. (R. 223-228, 814.)

interest in the pipeline would have reverted to Mr. Gilmore, as the sole owner of Bonanza, by operation of Texas law when Bonanza was dissolved in 1998. Courseview, Inc. v. Phillips Petroleum Co., 312 S.W.2d 197, 203 (Tex. 1957) (under Texas law, when a Texas corporation is dissolved, all of its assets revert to the shareholders); see also Humble Oil & Refining Co. v. Blankenburg, 235 S.W.2d 891, 893 (Tex. 1951) (“When a corporation is dissolved its property becomes the property of its stockholders in proportion to their respective shares.”). Confirming Mr. Gilmore’s ownership prior to his transfer to Weststar is the fact that the BLM considers Weststar to be the owner of the pipeline, an ownership interest it could have obtained only via transfer from Mr. Gilmore.

Mr. Gilmore’s deposition testimony accounts for all other interests held in the pipeline. According to Mr. Gilmore’s testimony, Mr. Collins and Mr. Ware each hold an 8.33 percent interest in the pipeline pursuant to a 1988 operating agreement with Gilmore Oil & Gas, Bonanza’s parent company. (R. 333.) Mr. Gilmore also testified (and presented documentary evidence in the form of an assignment and participation agreement) that Houston Exploration owns a fifty percent interest in the pipeline, an interest it only could have obtained from Weststar.⁹ (R. 332-33, 804, 822, 901: 35.) This leaves Weststar with at least a 1/3 ownership interest in the pipeline, enough to confer standing to maintaining trespass and unjust enrichment claims.

In contrast, Newfield has provided no evidence to dispute any of this. Instead, Newfield characterizes the evidence presented as conclusory and suggests that documentary evidence was required to support Mr. Gilmore’s testimony. (R. 901: 6.)

⁹ Mr. Gilmore’s deposition testimony was before the court on summary judgment because Newfield cited to it and attached portions of it to their memoranda. (R. 203-229, 329-335, 477-482.)

Documentary evidence did in fact support Mr. Gilmore's affidavit and deposition testimony—the recorded assignment of the pipeline to Weststar and the participation agreement between Weststar and Houston Exploration—and this evidence combined with Mr. Gilmore's undisputed testimony is adequate to create a disputed material fact. (R. 362-65, 721-804.)

The Utah Supreme Court has held that while an affidavit which “reflects the affiant's unsubstantiated opinions and conclusions” is inadequate to overcome summary judgment, an affidavit containing “facts that would be admissible in evidence and show that the affiant is competent to testify to the matters stated therein,” does create a disputed issue of fact. Walker v. Rocky Mountain Recreation Corp., 508 P.2d 538, 542 (Utah 1973). Mr. Gilmore was the sole owner of Bonanza when he obtained Bonanza's ownership interest in the pipeline, an interest he then later assigned to Weststar. (R. 371.) Thus, Mr. Gilmore not only is competent to testify about the transfers but has personal knowledge of them. Moreover, Mr. Gilmore's affidavit was accompanied by the recorded assignment of the pipeline to Weststar. (R. 362-65.) When the affiant alleges “facts upon which his conclusion was based,” an affidavit is sufficient to raise an issue of fact. Williams v. Melby, 699 P.2d 723, 725-26 (Utah 1985).

The evidence on summary judgment was not simply Mr. Gilmore's unsubstantiated conclusion that Weststar owns the pipeline. Instead, his testimony also “alleged facts upon which his conclusion was based” by describing the transactions in which he personally participated, beginning with the building of the pipeline until its ultimate transfer to Weststar. Like the affidavit in Williams, Mr. Gilmore's affidavit coupled with the documentary evidence supporting his testimony raises a disputed issue

of fact regarding Weststar's ownership of the pipeline. Again, Newfield provides no evidence to dispute this. Mr. Gilmore's affidavit testimony combined with documentary evidence of Weststar's ownership interest is sufficient to create a question of fact under Rule 56.

The district court appears to have erred by judging credibility instead of merely determining whether a factual dispute exists. In QEP's (one of the defendants) motion for summary judgment, it asserted that there is a "lack of any credible evidence to support [Weststar's] claims, all of [Weststar's] claims against QEP fail as a matter of law." (R. 276 (emphasis added).) The district court appears to have followed QEP's suggestion by discounting entirely Mr. Gilmore's testimony (and other documentary evidence) concerning Weststar's ownership interest in the pipeline. However, "[t]he purpose of summary judgment is not to weigh the evidence" or to "assess credibility." Webster v. Sill, 675 P.2d 1170, 1172 (Utah 1983). "A single sworn statement is sufficient to create an issue of fact." Id.

Based upon Mr. Gilmore's testimony and documentary evidence of ownership, there is ample evidence of Weststar's ownership sufficient to create an issue of fact to preclude summary judgment. Respectfully, the district court's conclusion that there was "no indication of [Weststar's] ownership" is contradicted by every piece of evidence presented at summary judgment.¹⁰ (R. 535.) No defendant provided any evidence to dispute Weststar's claim of ownership of the pipeline, a claim confirmed by the BLM.

¹⁰ In the court's order denying Weststar's motion to reconsider, the court emphasized that many documents had not been produced by Weststar in a timely fashion. (R. 835.) However, this was not cited as a ground for summary judgment and there were no discovery motions before the court.

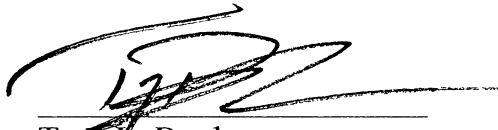
The Court should reverse the district court's entry of summary judgment and remand so Weststar's claims can be adjudicated on the merits.

CONCLUSION

The district court's entry of summary judgment was in error (i) because it incorrectly assumed that an ownership, instead of a possessory, interest is required to maintain trespass and unjust enrichment claims and (ii) because Weststar did provide (undisputed) evidence that it, in fact, does have an ownership interest in the pipeline. The Court should reverse.

DATED this 26th day of November, 2007.

Snell & Wilmer L.L.P.



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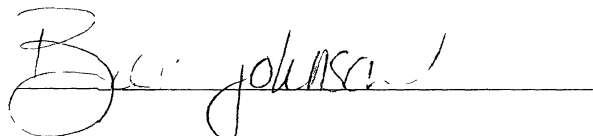
CERTIFICATE OF SERVICE

This is to certify that two true and correct copies of the foregoing BRIEF OF APPELLANT was mailed, postage prepaid, this 26th day of November, 2007, to the following:

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A handwritten signature in cursive script, appearing to read "Ben Johnson", is written over a horizontal line.

APPENDIX

APPENDIX

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- A. Order of Summary Judgment
- B. Affidavit of William C. Gilmore
- C. Participation and Operating Agreement between The Houston Exploration Company and WestStar Exploration Company
- D. Assignment, Bill of Sale and Conveyance
- E. Bureau of Land Management Case Recordation

Tab A

Jeffrey R. Oritt (Bar No. 2478)
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257 East 200 South, Suite 700
P.O. Box 11008
Salt Lake City, Utah 84147-0008
Telephone (801) 532-2666
Facsimile (801) 355-1813

FILED
DISTRICT COURT
UINTAH COUNTY, UTAH
AUG 23 2005
BY JOANNE MOORE CLERK
ch
DEPUTY

Attorneys for Defendant and Counterclaim
Plaintiff QEP Uinta Basin, Inc.

IN THE EIGHTH JUDICIAL DISTRICT COURT
IN AND FOR UINTAH COUNTY, STATE OF UTAH

WESTSTAR EXPLORATION COMPANY,
INC., a Nevada corporation,

Plaintiff,

v.

COCHRANE RESOURCES, INC., a Utah
corporation; P & M PETROLEUM
MANAGEMENT, LLC, a Colorado limited
liability company; NEWFIELD ROCKY
MOUNTAINS, INC., fka INLAND
RESOURCES, INC., a Delaware corporation;
QEP UINTA BASIN, INC., a Delaware
corporation; and JOHN DOES 1-5 and
MARY ROES 1-5, whose true names are
unknown,

Defendants.

ORDER OF SUMMARY JUDGMENT

Case No. 050800069

Judge John R. Anderson

On July 12, 2006, the Defendants brought on for hearing before the above-entitled court
their various Motions for Summary Judgment. William Gilmore appeared on behalf of the
Plaintiff with Plaintiff's counsel, Daniel Sam. Defendant QEP Uinta Basin, Inc. ("QEP") was

represented by its counsel, Jeff Oritt. Defendant Newfield Rocky Mountains, Inc. fka Inland Resources, Inc. (“Newfield”) was represented by its counsel, Gayle F. McKeachnie. Defendants Cochrane Resources, Inc. (“Cochrane”) and P&M Petroleum Management, LLC (“P&M”) were represented by their counsel, Clark B. Allred. All Defendants filed Motions for Summary Judgment. The Court, having read all memoranda supporting and opposing the Motions for Summary Judgment, having heard oral argument from all the parties, having reviewed the related memoranda and exhibits thereto, being fully advised in the premises herein, and good cause appearing therefore;

IT IS HEREBY ORDERED as follows:

1. Plaintiff’s claims against all Defendants are dismissed, as a matter of law and with prejudice, on the grounds that Plaintiff has produced to the court no evidence of ownership of the pipeline in question, notwithstanding having had more than adequate time to produce said evidence, and having failed to do so after repeated requests. Accordingly, Plaintiff has failed to prove any right to the relief it seeks, as a matter of law.

2. There are various cross-claims for indemnification among the Defendants. Because such claims require a favorable ruling for the Plaintiff, and Plaintiff’s claims are being dismissed with this ruling, all such cross-claims related to indemnification (excepting QEP’s claims for attorneys’ fees and costs against Newfield and P&M) are mooted.

3. Defendant QEP’s counterclaim against Plaintiff for attorney’s fees pursuant to Utah Code Annotated § 78-27-56 (1953, as amended) is denied on the grounds that it is the Court’s opinion, based on the evidence before it, that Plaintiff truly believed that it had a valid

case, but was unable to provide the proof necessary to prove its argument. The Court finds that Plaintiff did not intentionally bring a case that was without merit, and that the case was not brought in bad faith. Accordingly, Defendant QEP's counterclaim for attorney's fees is dismissed.

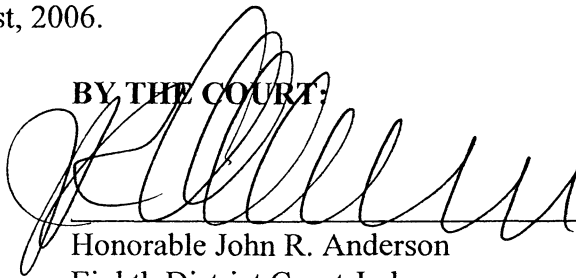
4. Defendant QEP has pending cross-claims for damages and reimbursement of attorneys' fees and costs against Defendants P&M and Newfield. In addition, Defendant Newfield has a pending third party indemnification claim against RMOC Holdings, LLC on Defendant QEP's claim. These claims are not before the Court at this time and accordingly survive this ruling.

5. Defendant Cochrane has pending third party claims against Washington Mutual Bank and William Gilmore, which claims are not before the Court at this time and accordingly survive this ruling.

6. Defendants are entitled to an award of their reasonable costs incurred in this action against Plaintiff, as the prevailing parties.

DATED this 27 day of August, 2006.

BY THE COURT:



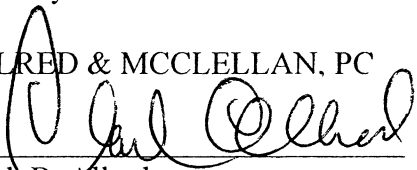
Honorable John R. Anderson
Eighth District Court Judge

APPROVED AS TO FORM:

Daniel S. Sam, PC

Daniel S. Sam
Attorneys for Plaintiff

ALLRED & MCCLELLAN, PC



Clark B. Allred
Attorneys for Defendants Cochrane Resources, Inc.
and P&M Petroleum Management, LLC

MCKEACHNIE LAW OFFICES, P.C.

Gayle F. McKeachnie
Attorneys for Defendant Newfield Rocky Mountains, Inc.

APPROVED AS TO FORM:

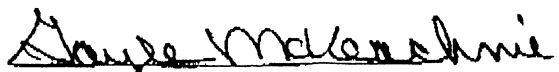
Daniel S. Sam, PC

Daniel S. Sam
Attorneys for Plaintiff

ALLRED & MCCLELLAN, PC

Clark B. Allred
Attorneys for Defendants Cochrane Resources, Inc.
and P&M Petroleum Management, LLC

MCKEACHNIE LAW OFFICES, P.C.


Gayle F. McKeachie
Attorneys for Defendant Newfield Rocky Mountains, Inc.

Tab B

ANNIE MCKEE CLERK
DA DEPUTY

1. I am an officer, director and sole shareholder of Weststar Exploration Company, Inc., which is the Plaintiff in this action.

2. The subject of this lawsuit is the unauthorized use by QEP and others of approximately 4 miles of a natural gas pipeline and easement, which runs in an east/west direction and has a total length of approximately 8 miles, located in the North Bonanza field, in Section 36, T7S, R24E, Section 31, T7S, R25E, Sections 6 and 7, T8S, R25E, and Sections 12, 13, 23, 24, 26, and 27, T8S, R24E, SLB&M, Uintah County, Utah (the pipeline and easement are hereinafter collectively referred to as the "Pipeline").

3. Weststar is the current owner of the Pipeline, having received title to the Pipeline by unrecorded assignment from myself, William C. Gilmore. I received title to the Pipeline from Bonanza Gas Company ("Bonanza") also by unrecorded assignment. Bonanza was an entity which I formed. I was the officer and sole partner of Bonanza at the time Bonanza assigned the Pipeline to me. I was the sole owner of the Pipeline at the time I assigned the Pipeline to Weststar. The unrecorded assignment from myself to Weststar is attached hereto as Exhibit A.

4. In May 1999, unbeknownst to me, someone, without authority from, and without informing me, reconstructed the Pipeline for the purpose of using approximately 4 miles of the 8-mile Pipeline to transport natural gas from a pipeline then owned by Chevron, U.S.A., Production Co., but currently owned by QEP, through the Pipeline to wells (hereinafter the "Defendants' Wells") then owned by Cochrane, Newfield, and QEP. The gas transported through the Pipeline to the wells was used during the times relevant to this action to provide operating fuel to Defendants' Wells. The wells which used the pipeline are marked with a check in the Production Report from

the Utah Division of Oil, Gas and Mining, attached hereto as Exhibit B.

5. Prior to the trespass and reconstruction of the Pipeline, the whole 8-mile length of the Pipeline was used to transport natural gas produced from other wells owned by myself and/or Gilmore Oil and Gas, Inc. (hereinafter "Gilmore Wells") for sale to other wells as operating fuel or for sale into other natural gas pipelines. The gas produced from the Gilmore Wells traveled from the west through the Pipeline in an eastward direction.

6. At the time of the trespass and reconstruction, the Gilmore Wells had been previously shut in and were not producing gas through the Pipeline.

7. The unauthorized reconstruction involved the placement of valves on the Pipeline in order to block it off in about the middle of its 8 mile length from the Gilmore Wells, and the connection at that point of a new pipeline which leads to Defendants' Wells; and, at the east end of the Pipeline, the placement of valves allowing the flow of natural gas from the east in a westward direction to Defendants' Wells through the Pipeline and then through the new pipeline.

8. The Gilmore Wells are now operated by Weststar and, by reason of the trespass and reconstruction, are currently shut off from the Pipeline.

9. In about August 2004, P & M acquired ownership of some of Defendants' Wells which were previously owned by Newfield. Thus Cochrane, P & M, and QEP, are currently the owners of Defendants' Wells. However, insofar as is known by myself, Defendants' Wells are, and always have been, owned separately, not jointly, by said Defendants.

10. Since about May 1999, the 4-mile reconstructed portion of the Pipeline has been used continuously by the Defendants, and without consent of or knowledge of Weststar or myself, for the benefit of Defendants' Wells.

11. I became aware of the trespass, and unauthorized reconstruction and use of the Pipeline in about August 2004 when I, through Weststar, began to refurbish the Gilmore Wells in preparation to again produce oil and gas from them.

12. Because of the trespass and unauthorized reconstruction and use of the Pipeline, and because of the refurbishment of the Gilmore Wells and the immediate need to produce and sell natural gas therefrom, Weststar was required to build a new pipeline to the Gilmore Wells which has caused the incurrence of great expense to Weststar.

13. Since August 2004, Weststar has notified, both verbally and in writing and through counsel, Defendants QEP, P & M, and Cochrane of the unauthorized use of the Pipeline and of Weststar's desire that they quit using it without authority.

14. Despite said notifications, Defendants QEP, P & M, and Cochrane continued to use the Pipeline until June 2005, which was approximately four months after the Complaint was filed in this matter.

15. Neither Bonanza, myself nor Weststar have ever received any compensation from any person or entity for the use of the Pipeline by QEP, Cochrane, Newfield, and P & M.

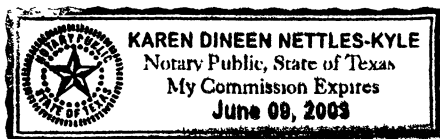
16. I am not aware that any other person or entity has received compensation from the

Defendants for their use of the pipeline and am not aware whether the Defendants have entered into any gas transportation contract with anyone authorizing Defendants' use of the Pipeline.

DATED this 16th day of March, 2006.

William C. Gilmore
WILLIAM C. GILMORE

SUBSCRIBED AND SWORN to before me this 16th day of March, 2006.



6-9-2008

Karen Dineen Nettles-Kyle
Notary Public for the State of Texas

MAILING CERTIFICATE

I, Heather T. Eskelson, do hereby certify that I did mail first class, postage prepaid, a true and correct copy of the foregoing *AFFIDAVIT OF WILLIAM C. GILMORE* on this 20 day of March, 2006, to:

Gayle F. McKeachnie
McKEACHNIE LAW OFFICES, P.C.
P.O. Box 340
Vernal, UT 84078

Jeffrey R. Oritt
COHNE, RAPPAPORT & SEGAL
P.O. Box 11008
Salt Lake City, UT 84147-0008

Clark B. Allred
ALLRED & McCLELLAN, P.C.
72 North 300 East (123-14)
Roosevelt, UT 84066

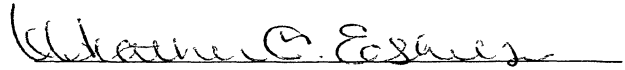

Heather T. Eskelson, Secretary

EXHIBIT “A”

ENTRY 2004002396
BOOK 877 PAGE 80

STATE: Utah

COUNTY: Uintah

ASSIGNOR: William C. Gilmore
811 Rusk, Suite 710
Houston, TX 77002

ASSIGNEE: Weststar Exploration Company
811 Rusk, Suite 710
Houston, TX 77002

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and interest in the following, all of which are referred to in this assignment collectively as the "Properties":

1. Assignor's leasehold interest in oil, gas and other minerals, including working interest, carried working interest, net profits interest, rights of assignment and reassignment, and all other rights and interest under the leases.
2. Any fee interests in oil and gas and other minerals, including rights under mineral deed, conveyances, options and assignments.
3. Any royalty, overriding royalties, production payments, right to take royalties in kind, and all other interest in and/or payable out of production of oil, gas and other minerals.
4. All rights and interests in or derived from Unit Agreements, orders and decisions of State and Federal regulatory authorities establishing units, Joint Operating Agreements, Enhanced Recovery Agreements, Water Flood Agreements, Farmout Agreements and Farmin Agreements, Options, Drilling Agreements, Unitization, Pooling and Communitization Agreements, Oil and/or Gas Sales Agreements, Processing Agreements, Gas Gathering and Transmission Agreements, Gas Balancing Agreements, Salt Water Disposal and Injection Agreements, Assignments of Operating Rights, Working Interest, Subleases, and any and all other agreements to the extent they pertain to the Leases, Lands and the wells located on the Leases.
5. All Rights of Way, Easements, Surface Fees, Surface Leases, Servitudes and Franchises, insofar as they pertain to the Leases and the wells located on the Leases.
6. All permits and licenses of any nature owned, held or operated by Assignor in connection with the Leases, Lands and the wells located on the Leases.
7. All producing, nonproducing and shut in oil and gas wells; salt water disposal wells, water wells, injection wells, and all other wells on or attributable to the Leases, whether or not identified in the Exhibit to the Assignment.

8. All pumps, casing, rods, tubing, wellhead equipment, separators, heater treaters, tanks, pipelines, gathering lines, flowlines, valves, fittings and all other surface and down hole equipment, fixtures related inventory, gathering and treating facilities, personal property and equipment used in connection with the Leases and the wells located on the Leases and all other interests described above

The effective date of this assignment is Jan 1, 2000.

ASSIGNOR

William C. Gilmore
William C. Gilmore

THE STATE OF TEXAS

COUNTY OF HARRIS

The foregoing instrument was acknowledge before me on the
11th day of December, 2003 by William C. Gilmore.

Valerie L. Norwood
Notary Public

My Commission Expires July 16, 2006

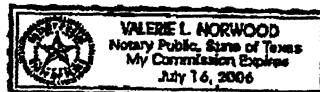


EXHIBIT "A"

Attached to and made a part of that certain "ASSIGNMENT OF OIL AND GAS LEASES" between William C. Gilmore, Assignor and Weststar Exploration Company, Assignee, concerning oil and gas leases, lands and wells in Uintah County, Utah.

<u>Lease Serial No.</u>	<u>Lease Effective Date</u>	<u>Description*</u>	<u>Acres</u>
USA-UTU-54928	10/01/84	Sec. 27-S/2 SW/4; Sec. 28-SESE; Sec. 33-E/2 NE/4.	200
USA-UTU-41813	01/01/79	Sec. 26-NESW, S/2 SW/4.	120
USA-UTU-52767	05/01/83	Sec. 34-NW/4.	160
USA-UTU-52765	05/01/03	Sec. 26-E/2, NW/4, NWSW; Sec. 27-NESE, S/2 SE/4.	640
USA-UTU-58725	03/01/86	Sec. 33-W/2 NE/4, NW/4, N/2 SW/4, SE/4.	480
USA- UTU-58726	03/01/86	Sec. 34-NWSW, NESW, S/2 SW/4, SE/4; Sec. 35-S/2.	640

EXHIBIT “B”

PRODUCTION REPORT

JUNE, 2005

YEAR TO

TWP	RNG	SEC	QQ	MER	API	ZONE	ENTITY	DFP	DAYS	MONTH	DATE	CUMULATIVE		
8 OS	23.0E	14	NWSW	S	43-047-33667	MVRD	13028	8-2001	0	OIL (BBL)	0	0	23	
					OPERATOR: N2115 WESTPORT OIL & GAS CO LP				GAS (MCF)	0	0	3,088		
					WELL NAME: KENNEDY WASH 14-1				WATER (BBL)	0	0	632		
					FIELD: 618 KENNEDY WASH									
8.0S	23.0E	16	NWNW	S	43-047-33589	WSMVD	12871	1-2001	1	OIL (BBL)	1	1	4,046	
					OPERATOR: N2115 WESTPORT OIL & GAS CO LP				GAS (MCF)	0	0	62,737		
					WELL NAME: KENNEDY WASH 16-1				WATER (BBL)	0	0	33,908		
					FIELD: 618 KENNEDY WASH									
8 OS	23.0E	17	NESW	S	43-047-30623	WSTC	6126	6-1980	0	OIL (BBL)	0	0	584	
					OPERATOR: N2115 WESTPORT OIL & GAS CO LP				GAS (MCF)	0	0	12,151		
					WELL NAME: FEDERAL 23-17				WATER (BBL)	0	0	2,831		
					FIELD: 618 KENNEDY WASH									
8.0S	23.0E	19	SESE	S	43-047-35734	WSMVD	14444	4-2005	30	OIL (BBL)	15	221	221	
					OPERATOR: N2115 WESTPORT OIL & GAS CO LP				GAS (MCF)	1,596	8,513	8,513		
					WELL NAME: MULLIGAN FED 823-19P				WATER (BBL)	1,138	2,957	2,957		
					FIELD: 630 NATURAL BUTTES									
8.0S	23.0E	25	NESW	S	43-047-30230	WSTC	6127	7-1977	30	OIL (BBL)	0	0	0	
					OPERATOR: N2315 SUMMIT OPERATING LLC				GAS (MCF)	1,742	7,216	73,425		
					WELL NAME: PTS 23-25 FED SAND RIDGE				WATER (BBL)	120	120	120		
					FIELD: 675 SAND RIDGE									
8.0S	23.0E	30	SESE	S	43-047-33452	WSTC	13137	6-2001	8	OIL (BBL)	0	0	436	
					OPERATOR: N2175 ENCANA OIL & GAS (USA) INC				GAS (MCF)	1,918	11,877	209,048		
					WELL NAME: FEDERAL 44-30				WATER (BBL)	15	140	2,186		
					FIELD: 630 NATURAL BUTTES									
8.0S	23.0E	30	SWNE	S	43-047-34085	MVRD	13172	8-2001	10	OIL (BBL)	0	0	476	
					OPERATOR: N2175 ENCANA OIL & GAS (USA) INC				GAS (MCF)	3,132	19,417	195,355		
					WELL NAME: FEDERAL 32-30				WATER (BBL)	105	584	5,439		
					FIELD: 630 NATURAL BUTTES									
8 OS	23.0E	31	NESE	S	43-047-34131	WSTC	14206	5-2003	24	OIL (BBL)	17	110	907	
					OPERATOR: N2175 ENCANA OIL & GAS (USA) INC				GAS (MCF)	7,507	49,657	455,035		
					WELL NAME: FEDERAL 43-31				WATER (BBL)	47	264	2,757		
					FIELD: 630 NATURAL BUTTES									
8.0S	23.0E	31	NESW	S	43-047-34126	WSTC	14206	6-2003	19	OIL (BBL)	0	0	406	
					OPERATOR: N2175 ENCANA OIL & GAS (USA) INC				GAS (MCF)	5,030	30,606	231,338		
					WELL NAME: FEDERAL 23-31				WATER (BBL)	272	1,881	12,238		
					FIELD: 630 NATURAL BUTTES									
8 OS	23	0E	31	SENW	S	43-047-31857	MVRD	10960	2-1989	0	OIL (BBL)	0	0	2,093
					OPERATOR: N2175 ENCANA OIL & GAS (USA) INC				GAS (MCF)	0	0	559,889		
					WELL NAME: BADLANDS FED 1-31				WATER (BBL)	0	0	2,587		
					FIELD: 630 NATURAL BUTTES									
8 OS	23.0E	31	SESE	S	43-047-33453	WSMVD	13091	5-2001	22	OIL (BBL)	0	0	506	
					OPERATOR: N2175 ENCANA OIL & GAS (USA) INC				GAS (MCF)	5,709	34,896	525,123		
					WELL NAME: FEDERAL 44-31				WATER (BBL)	72	310	2,854		
					FIELD: 630 NATURAL BUTTES									
8.0S	23.0E	31	SESW	S	43-047-33451	MVRD	10960	7-2001	9	OIL (BBL)	0	0	436	
					OPERATOR: N2175 ENCANA OIL & GAS (USA) INC				GAS (MCF)	4,068	26,339	332,441		
					WELL NAME: FEDERAL 24-31				WATER (BBL)	128	581	6,870		
					FIELD: 630 NATURAL BUTTES									
8.0S	23.0E	32	SENW	S	43-047-34016	WSTC	13839	8-2003	28	OIL (BBL)	7	20	219	
					OPERATOR: N2175 ENCANA OIL & GAS (USA) INC				GAS (MCF)	3,780	29,552	222,718		
					WELL NAME: FEDERAL 22-32				WATER (BBL)	231	1,753	16,109		
					FIELD: 630 NATURAL BUTTES									
8.0S	23.0E	32	SESE	S	43-047-31869	MVRD	11627	1-1990	8	OIL (BBL)	0	0	2,417	
					OPERATOR: N2175 ENCANA OIL & GAS (USA) INC				GAS (MCF)	1,666	10,108	461,493		
					WELL NAME: BADLANDS FED 1-32				WATER (BBL)	41	253	6,748		
					FIELD: 630 NATURAL BUTTES									
8 OS	24.0E	04	C-NE	S	43-047-32538	GRRV	5670	2-1995	0	OIL (BBL)	0	0	0	
					OPERATOR: N2460 QEP UINTEA BASIN, INC				GAS (MCF)	0	0	13,222		
					WELL NAME: RED WASH 305 (41-4F)				WATER (BBL)	0	0	590		
					FIELD: 2 UNDESIGNATED									
8 OS	24.0E	08	NENE	S	43-047-20014	GRRV	5670	6-1966	30	OIL (BBL)	0	0	122	
					OPERATOR: N2460 QEP UINTEA BASIN, INC.				GAS (MCF)	17,573	104,350	1,630,593		
					WELL NAME: RWU 212 (41-8F)				WATER (BBL)	0	0	76		
					FIELD: 665 RED WASH									
8.0S	24.0E	12	NESE	S	43-047-30943	WSTC	11500	7-1981	9	OIL (BBL)	9	545	69,090	
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT				GAS (MCF)	63	1,092	69,270		
					WELL NAME: COYOTE BASIN 43-12-8-24				WATER (BBL)	17	252	14,945		
					FIELD: 570 COYOTE BASIN									
8.0S	24.0E	12	NESW	S	43-047-20221	GRRV	11500	5-1967	0	OIL (BBL)	0	0	99,429	
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT				GAS (MCF)	0	0	34,778		
					WELL NAME: COYOTE 1-12				WATER (BBL)	0	0	37,513		
					FIELD: 570 COYOTE BASIN									
8.0S	24.0E	12	SWNE	S	43-047-20207	GRRV	11500	4-1967	0	OIL (BBL)	0	0	89,490	
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT				GAS (MCF)	0	0	20,831		
					WELL NAME: E RED WASH FED 1-12				WATER (BBL)	0	0	35,417		
					FIELD: 570 COYOTE BASIN									

10/12/2005

DEPARTMENT OF NATURAL RESOURCES
UTAH DIVISION OF OIL, GAS AND MINING

PAGE 138

PRODUCTION REPORT

JUNE, 2005

YEAR TO

TWP	RNG	SEC	QQ	MER	API	ZONE	ENTITY	DFP	DAYS	MONTH	DATE	CUMULATIVE
✓	8.0S	24.0E	13	NENW	8 43-047-20222	GRRV	11500	5-1967	0	OIL (BBL)	0	101,045
					OPERATOR: N1570	P&M PETROLEUM MANAGEMENT				GAS (MCF)	0	39,126
					WELL NAME: E RED WASH FED 1-13					WATER (BBL)	0	20,346
					FIELD: 570	COYOTE BASIN						
✓	8.0S	24.0E	13	NWSW	8 43-047-32196	GRRV	11500	11-1992	30	OIL (BBL)	75	15,777
					OPERATOR: N1570	P&M PETROLEUM MANAGEMENT				GAS (MCF)	210	26,966
					WELL NAME: FEDERAL 13-13					WATER (BBL)	0	2,070
					FIELD: 570	COYOTE BASIN						
✓	8.0S	24.0E	13	SWNW	8 43-047-31266	GRRV	11500	12-1982	29	OIL (BBL)	393	165,018
					OPERATOR: N1570	P&M PETROLEUM MANAGEMENT				GAS (MCF)	203	106,740
					WELL NAME: COYOTE BASIN FED 12-13					WATER (BBL)	25	2,753
					FIELD: 570	COYOTE BASIN						
	8.0S	24.0E	26	NESW	8 43-047-31344	GRRV	9140	8-1983	30	OIL (BBL)	169	23,646
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	0	4,695
					WELL NAME: RAGING BULL UNIT 1					WATER (BBL)	0	825
					FIELD: 631	NORTH BONANZA						
	8.0S	24.0E	26	NWSW	8 43-047-31905	GRRV	11028	2-1991	30	OIL (BBL)	198	31,211
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	397	174,753
					WELL NAME: FEDERAL 26-1					WATER (BBL)	0	0
					FIELD: 631	NORTH BONANZA						
	8.0S	24.0E	27	SESE	8 43-047-31890	GRRV	11028	5-1990	30	OIL (BBL)	198	22,223
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	398	120,319
					WELL NAME: FEDERAL 27 3					WATER (BBL)	0	1,158
					FIELD: 631	NORTH BONANZA						
	8.0S	24.0E	27	SESW	8 43-047-31847	GRRV	10914	8-1988	30	OIL (BBL)	299	70,873
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	217	114,381
					WELL NAME: FEDERAL 1-27					WATER (BBL)	0	208
					FIELD: 631	NORTH BONANZA						
	8.0S	24.0E	27	SWSE	8 43-047-31877	GRRV	11028	11-1989	30	OIL (BBL)	198	43,953
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	398	148,365
					WELL NAME: FEDERAL 27 2					WATER (BBL)	0	211
					FIELD: 631	NORTH BONANZA						
	8.0S	24.0E	32	NWNW	8 43-047-35684	MVRD	14288		13	OIL (BBL)	152	152
					OPERATOR: N2460	QEP UINTA BASIN, INC.				GAS (MCF)	16,052	16,052
					WELL NAME: CWD 4ML-32-8-24					WATER (BBL)	4,550	4,550
					FIELD: 1	WILDCAT						
	8.0S	24.0E	33	NESE	8 43-047-31904	GRRV	11164	2-1991	30	OIL (BBL)	33	4,830
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	770	398,271
					WELL NAME: FEDERAL 33-1					WATER (BBL)	0	0
					FIELD: 631	NORTH BONANZA						
	8.0S	24.0E	34	NENW	8 43-047-31891	GRRV	11001	6-1990	30	OIL (BBL)	93	31,459
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	126	52,308
					WELL NAME: FEDERAL 34 2					WATER (BBL)	0	20
					FIELD: 631	NORTH BONANZA						
	8.0S	24.0E	34	NWNW	8 43-047-31862	GRRV	11001	7-1989	30	OIL (BBL)	93	36,440
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	126	60,577
					WELL NAME: FEDERAL 34 1					WATER (BBL)	0	0
					FIELD: 631	NORTH BONANZA						
	8.0S	24.0E	34	NWSW	8 43-047-31907	GRRV	11144	2-1991	0	OIL (BBL)	0	4,029
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	0	0
					WELL NAME: Q-T FEDERAL 34-1					WATER (BBL)	0	455
					FIELD: 631	NORTH BONANZA						
	8.0S	24.0E	34	SWNW	8 43-047-31909	GRRV	11001	1-1991	30	OIL (BBL)	93	19,110
					OPERATOR: N2655	WESTSTAR EXPLORATION CO				GAS (MCF)	125	42,037
					WELL NAME: FEDERAL 34-3					WATER (BBL)	0	766
					FIELD: 631	NORTH BONANZA						
✓	8.0S	25.0E	04	SESW	8 43-047-32493	GRRV	11630	6-1994	30	OIL (BBL)	286	59,054
					OPERATOR: N2460	QEP UINTA BASIN, INC.				GAS (MCF)	0	36,030
					WELL NAME: EAST COYOTE FED 14-4-8-25					WATER (BBL)	0	2,267
					FIELD: 570	COYOTE BASIN						
✓	8.0S	25.0E	04	RWSW	8 43-047-15678	GRRV	11500	9-1990	27	OIL (BBL)	241	83,446
					OPERATOR: N1570	P&M PETROLEUM MANAGEMENT				GAS (MCF)	189	73,482
					WELL NAME: FEDERAL 14-4					WATER (BBL)	17	4,434
					FIELD: 570	COYOTE BASIN						
✓	8.0S	25.0E	05	NENW	8 43-047-32260	GRRV	11500	9-1992	30	OIL (BBL)	40	31,441
					OPERATOR: N1570	P&M PETROLEUM MANAGEMENT				GAS (MCF)	210	28,939
					WELL NAME: COYOTE FEDERAL 21-5					WATER (BBL)	198	38,791
					FIELD: 570	COYOTE BASIN						
✓	8.0S	25.0E	05	NWSW	8 43-047-32257	GRRV	11500	11-1992	7	OIL (BBL)	20	5,585
					OPERATOR: N1570	P&M PETROLEUM MANAGEMENT				GAS (MCF)	49	9,778
					WELL NAME: COYOTE FEDERAL 33-5					WATER (BBL)	0	2,644
					FIELD: 570	COYOTE BASIN						
✓	8.0S	25.0E	05	NWSW	8 43-047-32261	GRRV	11500	11-1992	27	OIL (BBL)	165	62,194
					OPERATOR: N1570	P&M PETROLEUM MANAGEMENT				GAS (MCF)	189	37,659
					WELL NAME: COYOTE FEDERAL 13-5					WATER (BBL)	439	37,524
					FIELD: 570	COYOTE BASIN						

DEPARTMENT OF NATURAL RESOURCES
UTAH DIVISION OF OIL, GAS AND MINING

PRODUCTION REPORT

JUNE, 2005

YEAR TO

TWP	RNG	SEC	QQ	MER	API	ZONE	ENTITY	DEP	DAYS	MONTH	DATE	CUMULATIVE
8.0S	25.0E	05	SENE	S	43-047-31567	GRRV	11500	12-1984	0	OIL (BBL)	0	5,929
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT					GAS (MCF)	0	1,100
					WELL NAME: TXO FEDERAL 2					WATER (BBL)	0	1,109
					FIELD: 570 COYOTE BASIN							
8.0S	25.0E	05	SENE	S	43-047-20174	GRRV	11500	1-1967	30	OIL (BBL)	92	194,004
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT					GAS (MCF)	210	57,610
					WELL NAME: E RED WASH 1-5					WATER (BBL)	273	41,358
					FIELD: 570 COYOTE BASIN							
8.0S	25.0E	05	SENE	S	43-047-31406	GRRV	11500	2-1984	29	OIL (BBL)	158	89,032
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT					GAS (MCF)	203	55,816
					WELL NAME: TXO FEDERAL 1					WATER (BBL)	0	3,604
					FIELD: 570 COYOTE BASIN							
8.0S	25.0E	05	SENE	S	43-047-32253	GRRV	11500	8-1992	0	OIL (BBL)	0	5,434
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT					GAS (MCF)	0	1,311
					WELL NAME: COYOTE FEDERAL 12-5					WATER (BBL)	0	8,976
					FIELD: 570 COYOTE BASIN							
8.0S	25.0E	06	NESE	S	43-047-20208	GRRV	11500	4-1967	0	OIL (BBL)	0	283,898
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT					GAS (MCF)	0	29,474
					WELL NAME: E RED WASH FED 1-6					WATER (BBL)	0	109,966
					FIELD: 570 COYOTE BASIN							
8.0S	25.0E	07	NESE	S	43-047-31673	WSTC	11500	12-1985	30	OIL (BBL)	418	154,089
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT					GAS (MCF)	210	71,589
					WELL NAME: COYOTE BASIN 21-7-8-25					WATER (BBL)	17	5,720
					FIELD: 570 COYOTE BASIN							
8.0S	25.0E	07	NESE	S	43-047-32254	GRRV	11500	10-1992	23	OIL (BBL)	45	26,275
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT					GAS (MCF)	161	41,671
					WELL NAME: COYOTE FEDERAL 31-7					WATER (BBL)	0	7,124
					FIELD: 570 COYOTE BASIN							
8.0S	25.0E	07	NWSE	S	43-047-32255	GRRV	11500	10-1992	0	OIL (BBL)	0	11,404
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT					GAS (MCF)	0	27,630
					WELL NAME: COYOTE FEDERAL 13-7					WATER (BBL)	0	9,510
					FIELD: 570 COYOTE BASIN							
8.0S	25.0E	07	SENE	S	43-047-32256	GRRV	11500	10-1992	30	OIL (BBL)	392	59,328
					OPERATOR: N1570 P&M PETROLEUM MANAGEMENT					GAS (MCF)	210	41,543
					WELL NAME: COYOTE FEDERAL 22-7					WATER (BBL)	93	20,247
					FIELD: 570 COYOTE BASIN							
8.0S	25.0E	18	SWSW	S	43-047-31521	GRRV	11869	1-1996	10	OIL (BBL)	93	11,752
					OPERATOR: N7015 COCHRANE RESOURCES INC					GAS (MCF)	200	19,020
					WELL NAME: COYOTE BASIN FED 14-18					WATER (BBL)	0	0
					FIELD: 2 UNDESIGNATED							
8.0S	25.0E	28	SESE	S	43-047-30098	GRRV	10095	1-1971	0	OIL (BBL)	0	0
					OPERATOR: N2525 HOUSTON EXPLORATION CO, TH					GAS (MCF)	0	0
					WELL NAME: FEDERAL 28-01					WATER (BBL)	0	0
					FIELD: 1 WILDCAT							
8.0S	25.0E	32	NESE	S	43-047-30100	DGCRK	10096		0	OIL (BBL)	0	0
					OPERATOR: N2525 HOUSTON EXPLORATION CO, TH					GAS (MCF)	0	0
					WELL NAME: CONOCO STATE 32-2					WATER (BBL)	0	0
					FIELD: 1 WILDCAT							
9.0S	15.0E	01	NWSE	S	43-013-31883	GRRV	12419	8-1997	30	OIL (BBL)	214	27,828
					OPERATOR: N2695 NEWFIELD PRODUCTION COMPAN					GAS (MCF)	336	87,854
					WELL NAME: ASHLEY FED 2-1					WATER (BBL)	280	32,558
					FIELD: 105 MONUMENT BUTTE							
9.0S	15.0E	01	NWSE	S	43-013-32118	GRRV	12419	2-2000	30	OIL (BBL)	221	12,890
					OPERATOR: N2695 NEWFIELD PRODUCTION COMPAN					GAS (MCF)	101	11,995
					WELL NAME: ASHLEY U 4-1-9-15					WATER (BBL)	538	18,312
					FIELD: 105 MONUMENT BUTTE							
9.0S	15.0E	01	NWSE	S	43-013-31825	GRRV	12419	8-1997	30	OIL (BBL)	595	48,293
					OPERATOR: N2695 NEWFIELD PRODUCTION COMPAN					GAS (MCF)	0	144,943
					WELL NAME: ASHLEY FED 10-1					WATER (BBL)	417	11,397
					FIELD: 105 MONUMENT BUTTE							
9.0S	15.0E	01	NWSE	S	43-013-32000	GRRV	12419	4-1998	29	OIL (BBL)	75	11,539
					OPERATOR: N2695 NEWFIELD PRODUCTION COMPAN					GAS (MCF)	69	75,089
					WELL NAME: ASHLEY FED 12-1-9-15					WATER (BBL)	548	23,507
					FIELD: 105 MONUMENT BUTTE							
9.0S	15.0E	01	SENE	S	43-013-31809	GRRV	12419	7-1997	30	OIL (BBL)	88	20,528
					OPERATOR: N2695 NEWFIELD PRODUCTION COMPAN					GAS (MCF)	106	124,980
					WELL NAME: NORTH ASHLEY 8-1					WATER (BBL)	307	8,850
					FIELD: 105 MONUMENT BUTTE							
9.0S	15.0E	01	SENE	S	43-013-31927	GRRV	12419	12-1997	30	OIL (BBL)	352	38,430
					OPERATOR: N2695 NEWFIELD PRODUCTION COMPAN					GAS (MCF)	115	112,215
					WELL NAME: ASHLEY FED 6-1					WATER (BBL)	1,240	34,355
					FIELD: 105 MONUMENT BUTTE							
9.0S	15.0E	01	SESE	S	43-013-32004	GRRV	12419	10-1998	30	OIL (BBL)	375	23,938
					OPERATOR: N2695 NEWFIELD PRODUCTION COMPAN					GAS (MCF)	239	68,344
					WELL NAME: ASHLEY FED 16-1					WATER (BBL)	97	4,935
					FIELD: 105 MONUMENT BUTTE							

Tab C

**PARTICIPATION AGREEMENT
NORTH BONANZA UNIT PROJECT
UINTAH COUTNY, UTAH**

THIS PARTICIPATION AGREEMENT ("Agreement") is effective for all purposes as of March 1, 2004 ("**Effective Date**"), by and between The Houston Exploration Company ("**Participant**") whose address is 1100 Louisiana, Suite 2000, Houston, 77002-5215, and WestStar Exploration Company ("**WestStar**") whose address is The Houston Club Building, 811 Rusk, Suite 710, Houston, Texas 77002. WestStar and Participant are hereinafter sometimes referred to singly as "**Party**" or collectively as "**Parties**".

RECITATIONS:

WHEREAS, WestStar represents and warrants by, through and under WestStar only, that it owns or controls oil and gas leasehold interests covering approximately 2,120.00 gross and net acres, more or less, in Uintah County, Utah, all of which are within the North Bonanza Unit Project (as defined herein); and,

WHEREAS, WestStar desires, subject to the terms herein, to sell and Participant desires to acquire from WestStar an undivided 50.00% working interest from WestStar in the North Bonanza Unit Project; and,

WHEREAS, WestStar and Participant, with WestStar, as designated Operator, desire to commence, or cause to be commenced, the re-entry and deepening of a well on the North Bonanza Unit Project to an approximate subsurface depth of 8,350 feet to test the Wasatch, Mesaverde and Mancos Shale formations expected to be encountered in the well; and,

WHEREAS, WestStar and Participant also desire to provide for the acquisition of additional leasehold interests and related rights within the North Bonanza Unit Project, if any; so

NOW, THEREFORE, in consideration of the sum of One Hundred Dollars and No Cents (\$100.00) and other good and valuable consideration paid to each of the undersigned the receipt and sufficiency of which are hereby acknowledged and the mutual covenants and benefits arising hereunder, and intending to be legally bound, the Parties hereby agree as follows:

DEFINITIONS:

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

1. The term "**North Bonanza Unit Project**" shall mean the lands set forth within the bold black line on the plat attached hereto as **Exhibit "A"**.
2. The term "**Well**" shall mean the WestStar Q-T Federal 34 wellbore (API #43-047-3190700S1) located in Section 34, T8S-R24E, Uintah County, Utah.
3. The term "**Initial Test Well-North Bonanza Unit Project**" shall mean the re-entry and deepening of the Well by the Parties in search of oil and gas which shall be drilled by the Parties to at least the Contract Depth.
4. The term "**Initial Test Well**" shall mean the Well set forth in subparagraph 3 of this Definitions Section.
5. The term "**Contract Depth**" shall mean, the lesser of a vertical total depth of 6,300 feet or to such depth as to sufficiently test the stratigraphic equivalent of the Mesaverde formation.

6. The term “**Ownership Percentage Interests-Initial Test Well-North Bonanza Unit Project**” shall be deemed to mean the Working Interest percentage which WestStar and Participant shall bear as set forth below affecting costs, risks, expenses and revenues in the Initial Test Well-North Bonanza Unit Project.

Working Interest

WestStar	50.00%
Participant	50.00%
Total:	<u>100.00%</u>

7. The term “**Ownership Percentage Interests-Subsequent Wells-North Bonanza Unit Project**” shall be deemed to mean the Working Interest percentage which WestStar and Participant shall bear as set forth below affecting costs, risks, and expenses for all wells drilled by the Parties in the North Bonanza Unit Project other than Initial Test Well and/or its Substitute as set forth in Article VI. B. of the Operating Agreement.

<u>Party</u>	<u>Working Interest</u>
WestStar	50.00%
Participant	50.00%
Total:	<u>100.00%</u>

8. The term “**Operating Agreement**” shall mean the 1989 Model Form Operating Agreement and accompanying exhibits attached hereto as **Exhibit “B”** which agreement is further referenced in Article IV herein, which, among other items, names WestStar as the designated Operator of the North Bonanza Unit Project.
9. The term “**North Bonanza Unit Agreement and Unit Operating Agreement**” shall mean the Federal Exploratory Type Unit currently being formed by WestStar, which agreement is further referenced in Article V herein, which among other items, names WestStar as the designated Operator of the North Bonanza Unit Agreement and Unit Operating Agreement.
10. The term “**Area of Mutual Interest or AMI**” shall mean the area of mutual interest established by the Parties as set forth in Article XIV herein and the intervals and depths applicable thereto, the boundaries of which are set forth by the bold line on **Exhibit “C”** attached hereto and made a part hereof. All of the AMI is located in Uintah County, Utah.
11. For purposes of the Area of Mutual Interest set forth in Article XIV herein the term “**Leasehold Interest**” shall be deemed to mean any acquisition of an unleased mineral interest or overriding royalty interest in the AMI after the Effective Date and/or an acquisition of a leasehold interest acquired by purchase or farmout from a third party, and /or the acquisition of any producing property working interest and related net revenue interest, but shall not be deemed to include the acquisition of any Leasehold Interest within the AMI to the extent such interests are 1) acquired as part of the acquisition of all or substantially all of the oil and gas leasehold or mineral interests of a third party, or (2) as part of a merger or other corporate reorganization.
12. The term “**Authorization for Expenditure or AFE**” shall be the AFE set forth on **Exhibit “D”**, attached hereto and made a part hereof, affecting the estimated costs to re-enter and deepen the Initial Test Well. The Parties recognize and agree that AFE's are prepared for preliminary budget and estimation purposes only and that any AFE's shall not be construed as a guaranteed total cost for such operation or a maximum limit to the expenditures to be incurred on the Initial Test Well.

13. The term **"Substitute Well"** shall mean any well which is drilled as a replacement for the Initial Test Well as further set forth in Article VIII. herein. Any such Substitute Well when so drilled to the specified Contract Depth set forth for the Initial Test Well shall qualify as the Initial Test Well-North Bonanza Unit Project.
14. The term **"Subsequent Well(s)"** shall mean any joint well(s) proposed to be drilled pursuant to the terms of the North Bonanza Unit Agreement and Unit Operating Agreement or the Operating Agreement by any Party in the North Bonanza Unit Project only after the drilling of the Initial Test Well to its Contract Depth by the Parties occurred as set forth in this Agreement.
15. The term **"WestStar Leases"** shall mean the oil and gas leases described on **Exhibit "E"** attached hereto and made a part hereof insofar and only insofar as the WestStar Leases cover lands within the boundaries of the North Bonanza Unit Project less and except those depths and intervals from the surface of the earth to the stratigraphic equivalent of the base of the Green River Formation as seen at 4,323 feet in the neutron log for the WestStar Raging Bull No. 1 well (API # 43-047-3134400S1).
16. The term **"Contingent Leases"** shall mean the oil and gas leases described on **Exhibit "E-1"** attached hereto and made a part hereof insofar and only insofar as the Contingent Leases cover lands within the boundaries of the North Bonanza Unit Project less and except those depths and intervals from the surface of the earth to the stratigraphic equivalent of the base of the Green River Formation as seen at 4,323 feet in the neutron log for the WestStar Raging Bull No. 1 well (API # 43-047-3134400S1).
17. The term **"Working Interest or Working Interests"** shall, unless otherwise provided for in this Agreement, mean the cost bearing and operating interest of a Party, or the Parties, hereto in any well drilled under the terms of this Agreement, together with a like ownership interest in all personal property, equipment and fixtures associated therewith.
18. The term **"Net Revenue Interest or Net Revenue Interests"** shall, unless otherwise provided for in this Agreement, mean a Party's, or the Parties', share of production from a well drilled under this Agreement, after deduction of lease royalty burdens and overriding royalty burdens.
19. The term **"Natural Gas Pipeline"** shall mean that certain 4 ½ inch natural gas pipeline, and related easements and rights-of-way, approximately 42,000 feet in length as depicted on the plat attached hereto as **Exhibit "F"**.
20. The term **"Excluded Wellbores/Gathering Lines/Facilities "** shall mean those certain wellbores, equipment, gathering lines, agreements and facilities set forth on **Exhibit "G"** attached hereto and made a part of which are further discussed in Article XII herein.
21. The term **"Operator"** shall mean WestStar.
22. The term **"Non-Operator"** shall mean Participant.
23. The term **"Effective Date"** shall mean March 1, 2004.
24. The term **"Closing Date"** shall mean on or before March 31, 2004.
25. The term **"Purchase Price"** shall mean the cash sum of Four Hundred Twenty Thousand Five Hundred Twenty Three and 40/100's Dollars (\$420,523.40) which is to be paid to WestStar by Participant at the Closing, as further set forth in Article II herein.

26. The term “**Deferred Purchase Price**” shall mean a cash sum equal to \$70.00 per net mineral acre covered by the Contingent Leases which is to be paid to WestStar by Participant upon the approval of the North Bonanza Unit Agreement and Unit Operating Agreement by the Bureau of Land Management and WestStar providing Participant with an original federal form of assignment, executed by the record title owners, covering all or a portion of the Contingent Leases.

ARTICLE I

SALE AND PURCHASE

1.1 WestStar represents and warrants that as of the Effective Date, it owns at minimum a 50.00% of 8/8ths working interest in the Well, WestStar Leases and the Natural Gas Pipeline. Subject to the terms and provisions set forth in this Agreement, WestStar, upon receipt of the Purchase Price at the Closing as set forth in Article II, (and for other consideration from Participant as set forth in this Agreement), will grant, bargain, sell, transfer, assign, and convey, subject to the reservations, conditions, carried interests and covenants hereinafter provided, into Participant an undivided 50.00% interest in and to the Well, WestStar Leases and Natural Gas Pipeline, the effect of which shall, among other items, grant to Participant a 50.00% working interest in the Well, WestStar Leases and Natural Gas Pipeline (“**Assigned Interests**”).

1.2 The sale to Participant, and assignment of the Assigned Interests to Participant by WestStar shall be accomplished by the Parties pursuant to the terms and provisions as set forth in the **Partial Assignment of Oil and Gas Leases** attached hereto as **Exhibit “H”** and made a part hereof, and the **Assignment, Bill of Sale and Conveyance** attached hereto as **Exhibit “I”** and made a part hereof, which shall be signed at the Closing.

ARTICLE II

CLOSING

2.1 The sale and purchase (the “**Closing**”) of the Assigned Interests shall be consummated and take place at 10:00 a.m. local time on the Closing Date at Participant’s offices located at 1100 Louisiana Street, Suite 2000, Houston, Texas 77002, or on such earlier or later date or at such other place as the parties agree in writing. Any conveyances from WestStar to Participant shall be effective as of the Effective Date.

2.2 At the Closing, Participant shall pay to WestStar, and its designees, the Purchase Price by cashiers check, wire transfer or other mutually agreeable funds, payable in the following amounts:

Payee	Consideration
WestStar Exploration Company	\$241,582.73
Washington Mutual Bank	\$110,000.00
Curton Capital Corporation	\$ 25,000.00
Uintah County Treasurer	\$ 43,940.67
TOTAL	\$420,523.40

2.3 At the Closing, WestStar and Participant shall execute, acknowledge and deliver two (2) original copies of the Partial Assignment of Oil and Gas Leases attached hereto as **Exhibit “H”**, the Partial Wellbore and Pipeline Assignment and Bill of Sale attached hereto as **Exhibit “I”** and Deed of Reconveyance attached hereto as **Exhibit “J”**.

2.4 Within thirty (30) days of WestStar notifying Participant that it has acquired all or a portion of the Contingent Leases, Participant shall pay to WestStar the Deferred Purchase Price covering all or a portion of the Contingent Leases. WestStar and Participant shall execute, acknowledge and deliver two (2) original copies of the form of Partial Assignment of Oil and Gas Leases attached hereto as **Exhibit “H”** covering the Contingent Leases.

ARTICLE III DESIGNATION OF OPERATOR

3.1 Upon execution of this Agreement by the Parties, Participant shall designate WestStar as the Operator of the North Bonanza Unit Project under the terms of this Agreement and the North Bonanza Unit Agreement and Unit Operating Agreement or the Operating Agreement. All operations which may be conducted by WestStar on behalf of the Parties, whether drilling or otherwise, under the terms of this Agreement shall be conducted in a reasonably prudent manner and in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall WestStar have any liability as Operator to Participant for losses sustained or liabilities incurred, except as such as may result from WestStar's gross negligence or willful misconduct. WestStar shall not be deemed, or hold itself out as, the agent of the Participant with authority to bind it to any obligation or liability assumed or incurred by Operator as to any third party. WestStar shall promptly pay all claims for labor, goods, equipment, facilities or services and shall allow no liens to be placed on the WestStar Leases and Contingent Leases, the production therefrom, or any equipment or facilities located thereon. As the designated Operator for all wells drilled pursuant to this Agreement, WestStar will reasonably attempt not to permit any ad valorem tax or any other lien to be foreclosed on any of the WestStar Leases or Contingent Leases and/or the minerals applicable thereto on which any wells drilled hereunder are located but shall not be held liable for its failure to do so. WestStar, if it has the right under the WestStar Leases and Contingent Leases, shall have the right, but not the obligation, to pay such taxes or the underlying amounts due for any such lien.

3.2 As soon as practical after the execution of this Agreement by the Parties, WestStar shall take any reasonably necessary actions to obtain all drilling permits, and all other necessary drilling approvals from all appropriate government authorities or agencies having jurisdiction for the drilling of the Initial Test Well to at least its respective Contract Depth as set forth in this Agreement. In addition, WestStar agrees to use commercially reasonable efforts to secure a drilling rig capable of drilling the Initial Test Well to its respective Contract Depth as set forth in this Agreement. Upon execution of any drilling contract(s), or as soon as practical thereafter, WestStar shall provide Participant with a copy of the actual drilling contract applicable to the Initial Test Well. Prior to the commencement of the Initial Test Well, and/or any Subsequent Wells, WestStar, as the designated Operator, shall prepare a well prognosis outlining in detail the proposed drilling program for the applicable well(s) and provide same to Participant.

3.3 At any time after the drilling of the Initial Test Well to the Contract Depth, Participant shall have the right to take over as Operator of the North Bonanza Unit Project under the terms of this Agreement and the North Bonanza Unit Agreement and Unit Operating Agreement or the Operating Agreement. Participant shall give written notice to Operator of its decision to take over as Operator, and Operator shall resign as Operator and Participant shall be designated as successor Operator of the North Bonanza Unit Project under the terms of this Agreement and pursuant to and in accordance with the North Bonanza Unit Agreement and Unit Operating Agreement or the Operating Agreement.

ARTICLE IV OPERATING AGREEMENT

4.1 Contemporaneously with the execution of this Agreement, WestStar and Participant shall execute the Operating Agreement, which shall, among other items, designate the North Bonanza Unit Project, as the Contract Area, and WestStar, as Operator. The Operating Agreement shall, along with the terms of this Agreement, govern all operations provided for in this Agreement prior to the approval of the North Bonanza Unit Agreement and Unit Operating Agreement by the governmental authorities having jurisdiction. In the event the North Bonanza Unit Agreement and Unit Operating Agreement is not approved or expires by its own terms, all operations

conducted on the North Bonanza Unit Project shall be conducted pursuant to the terms of the Operating Agreement. If there is a conflict, ambiguity or inconsistency between the provisions of this Agreement and the Operating Agreement, the terms of this Agreement shall control.

ARTICLE V
NORTH BONANZA UNIT AND UNIT OPERATING AGREEMENT

5.1 WestStar is currently in the process of forming the North Bonanza Unit and Unit Operating Agreement for the drilling of the Initial Test Well (and/or any Subsequent Well). Unless otherwise agreed to by the Parties, WestStar, as the designated Operator under this Agreement, shall represent the Parties before any and all governmental authorities regarding the establishment of the North Bonanza Unit Agreement and Unit Operating Agreement. Upon approval of the North Bonanza Unit Agreement and Unit Operating Agreement by the governmental authorities having jurisdiction, all operations conducted on the North Bonanza Unit Project shall be conducted pursuant to the terms and conditions of the North Bonanza Unit Agreement and Unit Operating Agreement and this Agreement. If there is a conflict, ambiguity or inconsistency between the provisions of this Agreement and the North Bonanza Unit Agreement and Unit Operating Agreement, the terms of this Agreement shall control.

ARTICLE VI
INITIAL TEST WELL

6.1 Notwithstanding anything contained in this Agreement to the contrary, the Initial Test Well shall be the first well drilled by the Parties pursuant to the terms of this Agreement and the North Bonanza Unit and Unit Operating Agreement or the Operating Agreement. The Initial Test Well shall be drilled as follows:

Initial Test Well-North Bonanza Unit Project

On or before March 31, 2004, WestStar shall commence, or cause to be commenced, the actual re-entry and deepening of the Initial Test Well-North Bonanza Unit Project and shall thereafter attempt the drilling of same to at least the Contract Depth.

ARTICLE VII
COST AND REVENUE SHARING BASIS-INITIAL TEST WELL

7.1 The Parties agree to share in all costs, risks, expenses and revenues attributable to the Initial Test Well-North Bonanza Unit Project based on their Ownership Percentage Interests-Initial Test Well-North Bonanza Unit Project- set forth in subparagraph 6 of the Definitions Section.

7.2 The estimated costs to re-enter, deepen and complete the Initial Test Well-North Bonanza Unit Project are set forth on the AFE. Any and all charges, expenditures and/or payments to be made by the Parties in regards to operations related to any well drilled hereunder shall be made in accordance with and accounted for as set forth in the accounting procedure attached as Exhibit "C" (COPAS) to the Operating Agreement.

7.3 When the Initial Test Well has been drilled to the Contract Depth as is anticipated herein and has reached Casing Point, WestStar shall notify Participant in writing of its recommendation to either attempt to complete the Initial Test Well as a producer of oil and/or gas or plug and abandon same as a dry-hole as set forth in Article VI. C. of the Operating Agreement.

ARTICLE VIII
TERMINATION OF OPERATIONS-SUBSTITUTE WELL

8.1 If during the drilling of the Initial Test Well, a formation or other condition is encountered by WestStar which after diligent effort by WestStar renders further drilling by ordinary tools and methods impractical, then WestStar shall notify Participant of its

election to cease drilling of the Initial Test Well. Thereafter, the Parties shall have the right, at their sole option, for a period of sixty (60) days from the abandonment of the Initial Test Well to commence the drilling of an additional well, hereinafter referred to as a "Substitute Well", at a mutually agreeable location within the North Bonanza Unit Project and thereafter attempt to drill said Substitute Well to the specified Contract Depth for the Initial Test Well. All costs attributable to the Substitute Well shall be based on the Working Interest as reflected in subparagraph 6 of the Definitions Section.

ARTICLE IX

RETENTION OF INTEREST AND EXCLUDED ASSETS

9.1 WestStar is retaining an undivided fifty percent of eight-eighths (50% of 8/8ths) working interest in the Well, WestStar Leases and Natural Gas Pipeline and a like interest in all obligations, liabilities, agreements and benefits related thereto occurring subsequent to the Effective Date and one hundred percent (100%) of all such obligations and liabilities occurring prior to the Effective Date.

9.2 The following data, rights, obligations and liabilities are expressly excluded and reserved from the terms of this Agreement and the Assignment by WestStar:

- (i) All easements, rights-of-way, surface leases and other surface rights, and all other appurtenances, being used or held for use in connection with, or otherwise related to the Excluded Wellbores/Facilities; and,
- (ii) All of WestStar's right, title and interest in the WestStar Leases and Contingent Leases, *insofar and only insofar* as the WestStar Leases and Contingent Leases cover those depths and intervals from the surface of the earth to the stratigraphic equivalent of the base of the Green River Formation as seen at 4,323 feet in the neutron log for the WestStar Raging Bull No. 1 well (API #43-047-3134400S1).
- (iii) The Excluded Wellbores/Facilities: WestStar shall retain one hundred percent (100%) responsibility for the plugging and abandonment and restoration of any wells and facilities currently located on the WestStar Leases or Contingent Leases as of the Effective Date for which WestStar has an obligation to plug and abandon pursuant to State of Utah, or other governmental plugging regulations and/or inherent lease or contractual obligations, including, but not limited to, those listed on **Exhibit "G"** attached hereto and made a part hereof. Without limiting the foregoing, WestStar shall be responsible for the filing of all operating reports with state or federal agencies and the compliance with all contracts, permits or other authorizations related to the plugging and abandonment operations of the Excluded Wellbores/Facilities.
- (iv) On the Effective Date of this Agreement, WestStar shall assume responsibility for, and shall indemnify, defend and hold Participant harmless against any and all **Claims** (as defined below) related to the Excluded Wellbore/Facilities, including without limitation Claims arising from (i) the assessment, remediation, removal, transportation or disposal of NORM or other hazardous substances; (ii) personal injury, death or property damage; or (iii) the physical condition of the Excluded Wellbores/Facilities. With regard to those wells listed on **Exhibit "G"**, WestStar shall retain all liability and responsibility for Claims related to the plugging and abandonment of such Excluded Wellbores, including Claims related to surface and subsurface well site remediation and restoration, and the indemnity provisions of this Section shall apply to all Claims related to such Excluded Wellbores/Facilities, including Claims based on facts or events that take place after the Effective Date.
- (v) On the Effective Date of this Agreement, WestStar shall retain all responsibility for, and shall indemnify, defend and hold Participant harmless

against any and all **Claims** (as defined below) related to the WestStar Leases and Contingent Leases prior to the Effective Date.

- (vi) As used in this Agreement the term "**Claims**" shall include all claims, liabilities, damages, fines, penalties, liens, demands, settlements, suits, causes of action (including breach of contract), sanctions, obligations and judgments of any kind or character and all costs, expenses and fees in connection therewith (including attorney's fees), including without limitation Claims under the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, the Hazardous Materials Transportation Act, the Clean Air Act amendments of 1990, and any other applicable federal, state or local law.

THE INDEMNIFICATION, RELEASE AND ASSUMPTION PROVISIONS PROVIDED FOR IN THIS SECTION SHALL BE APPLICABLE WHETHER OR NOT THE CLAIMS IN QUESTION AROSE FROM THE GROSS, SOLE, CONCURRENT, ACTIVE OR PASSIVE NEGLIGENCE OF PARTICIPANT, OR THEIR EMPLOYEES AND/OR AGENTS OR ANY THIRD PARTY AND REGARDLESS OF WHOM MAY BE AT FAULT OR OTHERWISE RESPONSIBLE UNDER ANY OTHER CONTRACT, OR ANY STATUTE, RULE OR THEORY OF LAW, INCLUDING, BUT NOT LIMITED TO, THEORIES OF STRICT LIABILITY. WESTSTAR AND PARTICIPANT ACKNOWLEDGE THAT THIS STATEMENT COMPLIES WITH THE EXPRESS NEGLIGENCE RULE AND IS CONSPICUOUS.

ARTICLE X

TRANSFER OF RECORDS

10.1 Concurrent with the final execution of this agreement, WestStar shall, deliver copies to Participant of the following documents to the extent the transfer thereof is not prohibited by existing contractual obligations with third parties:

- (i) All lease files, land files, title runs, title memorandums, title opinions, abstracts and all other books, files and records and related information affecting the WestStar Leases; and,
- (ii) All pertinent information related to the permitting, surveying, mitigating and surface use affecting the Initial Test Well that is in WestStar's possession or control.

10.2 Although the data and materials set forth in subparagraph (i) through (ii) above are believed by WestStar to be complete and accurate as of the Effective Date hereof, WestStar disclaims any and all liability for any material furnished herein and Participant agree that their use of such data and materials shall be at their own risk.

ARTICLE XI

SUBSEQUENT WELLS

11.1 Unless otherwise provided for in writing by and between the Parties, until the drilling of the Initial Test Well to its respective Contract Depth has actually been accomplished by WestStar as is set forth in this Agreement, no wells can be proposed to be drilled under the terms the North Bonanza Unit Agreement and Unit Operating Agreement or the Operating Agreement.

ARTICLE XII

FACILITIES USE AGREEMENT

12.1 If, during the Term of this Agreement, WestStar determines in its sole discretion that the Excluded Wellbores/Facilities and/or any salt water disposal wells, wellbores,

existing pipelines, gathering lines, tanks, production equipment, pipeline tie- in or other facilities related thereto can be utilized by the Parties to process, dispose of and/or transport produced gas, oil and/or other fluids from wells which the Parties own an interest within the North Bonanza Unit Project, then WestStar shall notify Participant of its desire to utilize a specific Excluded Wellbores/Facilities. In the event Participant agrees to same then thereafter Participant and WestStar shall attempt to negotiate in good faith a written facilities use agreement or similar document providing for the use of the specific Excluded Wellbores/Facilities by WestStar relative to the North Bonanza Unit Project.

ARTICLE XIII **LEASE OBLIGATIONS - PAYMENTS**

13.1 Upon execution of this Agreement, Participant agrees that the provisions of Article VII of the Operating Agreement shall govern any lease obligation payments required to maintain the WestStar Leases by and between the Parties. The Parties agree that provided all Parties agree to participate in such payments then such costs shall be shared based on the following percentages:

<u>Party:</u>	<u>Working Interest</u>
WestStar	50.00%
Participant	50.00%
Total:	<u>100.00%</u>

ARTICLE XIV **AREA OF MUTUAL INTEREST**

14.1 In the event any Party hereto acquires any Leasehold Interest (as defined in subparagraph 11 of the Definitions Section), or acquires the right to acquire any Leasehold Interest within the AMI by virtue of drilling, seismic, or other operations on any lands lying within the boundaries of the AMI, then the acquiring Party ("Acquiring Party") shall give the other Parties ("Non-Acquiring Parties") notice of the acquisition. Such notice shall be given in writing within fifteen (15) days after the Acquiring Party's acquisition of the Leasehold Interest or the Acquiring Party's right to acquire the Leasehold Interest and shall include a full description of the Leasehold Interest to be acquired and other terms of such acquisition. The notification provided for herein shall contain all title information relied on by the Acquiring Party, together with copies of leases, agreements by which the interests may be acquired, and all other pertinent instruments related thereto. It shall also describe in detail the cost and expense of the Leasehold Interest acquisition and any other expressed obligation that will be incurred as a result of the acquisition.

14.2 The Parties agree that the Leasehold Interests acquired shall be offered to the Parties based on the actual net revenue interest acquired from the landowner, and/or pertinent party. If drilling, seismic, or other operations are not required to acquire the interest, the Non-Acquiring Party shall have fifteen (15) days from receipt of written notice, or twenty-four (24) hours in the event a rig is drilling within the AMI, in which to notify the Acquiring Party of its desire to participate for its proportionate Ownership Percentage Working Interest share of the Leasehold Interest as follows:

<u>Party:</u>	<u>Working Interest</u>
WestStar	50.00%
Participant	50.00%
Total:	<u>100.00%</u>

14.3 Failure to reply within the prescribed time period applicable thereto shall be deemed an election by the Non-Acquiring Party not to participate in the acquisition. If the Non-Acquiring Party elects to participate in such Acquisition as set forth herein, such Party shall promptly reimburse the Acquiring Party for its proportionate Ownership Percentage Working Interest share thereof upon receipt of an invoice from the Acquiring Party setting forth in detail the cost and expense of such acquisition. The Acquiring Party shall, within thirty (30) days after receipt of payment from such Party, assign to such Party their proportionate Ownership Percentage Working Interest share of the acquisition as set forth above.

14.4 If an acquisition requires drilling, seismic, or other operations on the lands lying within the AMI, then the Non-Acquiring Party shall have thirty (30) days after the receipt of notice thereof in which to elect to participate in such required operation to the extent of its proportionate Ownership Percentage share at the time same is acquired. The Non-Acquiring Party's failure to give written notice to the Acquiring Party of its election, as specified herein, shall constitute its election not to participate. The election of any Party to participate in such operations shall constitute an election to participate in the agreement governing such operations, to the extent necessary to acquire the Leasehold Interest.

14.5 If less than all of the Parties elect to participate in an acquisition, such acquired Leasehold Interest shall not be subject to this Agreement and this Agreement shall be amended automatically, without further action or written instrument, to delete the lands covered by such acquisition from the AMI; provided, however, if the acquisition covers lands in which all Parties already own undivided oil and gas interests, then such lands shall not be deleted from the AMI and each Parties proportionate share in those lands shall be adjusted accordingly.

14.6 The Parties further agree that in the event any Leasehold Interest is acquired under the AMI and all Parties have elected to participate in the acquisition then such new leases shall be deemed subject to the terms of the North Bonanza Unit Agreement and Unit Operating Agreement or the Operating Agreement. If required, the Operating Agreement shall be amended accordingly to provide for the acquisition of a Leasehold Interest in the contract area for the Operating Agreement.

14.7 The term of the AMI shall remain in full force and effect for a period of three (3) years from the Effective Date hereof unless extended for an additional period of time by written agreement of all Parties.

ARTICLE XV **CONFIDENTIALITY**

15.1 In connection with the operations contemplated by the Parties under this Agreement, it is agreed that information not already of public record or not already in the possession of Participant, data and/or other materials, including but not limited to wireline logs, mudlogs, geological interpretations, seismic data and/or other production data ("Data") which might be obtained or accumulated is to be non-public, confidential and proprietary in nature, except, that such data can be shown to affiliated companies, consultants, reputable engineering firms, gas transmission companies, reputable financial institutions, or reputable and financially responsible third parties with whom a party to this Agreement is engaged in bona fide negotiations for the sale of all or a portion of its interest in the North Bonanza Unit Project, and/or governmental bodies requiring such Data.

15.2 WestStar and Participant understand that some of the Data provided by any Party to the others may be interpretive and its use of such data and materials shall be at their own risk and no Party to this Agreement makes any warranty or representation to the others as to the accuracy or the completeness of any such Data or material.

ARTICLE XVI
WELL INFORMATION

16.1 WestStar shall furnish to Participant all well information acquired in connection with the drilling and producing of all well(s) within the North Bonanza Unit Project under the terms of this Agreement as further outlined below:

16.2 Contacts:	Lloyd Bruce – Sr. Operations Engineer	713-830-6973
	Ed Dolly- Exploration Advisor	303-825-3389
	Greg Davis – Onshore Division Landman	713-830-6834
	Fax (daily reports)	713-830-6945
		303-825-3475
	Fax (open hole logs)	713-830-6944
		303-825-3475

16.3 The following well information shall be provided to Participant:

Permits, plats, regulatory forms	1 copy
Open hole logs/mud logs	4 copies
Formation tests	1 copy
Fluid analysis	1 copy
Drilling prognosis	1 copy
Completion procedure	copy

16.4 Drilling reports, completion reports and mud logs should be faxed daily marked to the attention of Lloyd Bruce and Ed Dolly at the fax numbers listed above. Participant shall be notified 24 hours prior to logging operations.

16.5 Prior to commencing any drilling operations within the North Bonanza Unit Project, WestStar shall furnish Participant with a surveyor's plat showing the location and ground elevation of each well to be drilled, together with a brief summary of the logging, coring and testing program and any other evaluation program proposed for each such well, the specifics of which shall be acceptable to Participant.

ARTICLE XVII
NOTICES

17.1 Except as otherwise provided in this Agreement, all notices, as defined in Article XII of the Operating Agreement, to be given to any Party shall be sent to the representative of all Parties addressed as follows:

WESTSTAR:

WestStar Energy Company, LLC
The Houston Club
811 Rusk, Suite 710
Houston, Texas 77002

Attn: William C. Gilmore

Phone: (713) 223-5837
Fax: (713) 679-9008
E-mail: oilandgasproduction@yahoo.com

PARTICIPANT:

The Houston Exploration Company
1100 Louisiana, Suite 20015
Houston, Texas 77002-5215

Attn: W. Greg Davis

Phone: (713) 830-6834
Fax: (713) 830-6945
E-mail: gdavis@houstonexp.com

ARTICLE XVIII
MISCELLANEOUS

(a) Third Party Obligations. Unless otherwise provided for in writing herein, no Party has incurred any obligation or liability, contingent or otherwise, for brokers' or finders' fees in connection with this Agreement that the other Parties or any one of them is subject to.

(b) Relationship of Parties. Participant and WestStar do not intend to create, nor shall this Agreement be construed as creating a partnership, mining partnership, joint venture, incorporated association or any other joint relationship, it being intended that liabilities and obligations of the Parties hereunder shall be several and not joint.

(c) Entire Agreement. This Agreement, including the Exhibits attached hereto, constitute the entire agreement and understanding of the Parties hereto and supersedes any and all other written or oral agreements or understandings between the Parties concerning the subject matter hereof. No modification or amendment of the terms and provisions of this Agreement shall be effective unless in writing and signed by all Parties hereto. There have been and are no representations, warranties, covenants or agreements between the Parties to this Agreement other than those expressly stated or referred to herein.

(d) Laws Governing This Agreement. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Texas and may not be amended or terminated except pursuant to a written agreement duly executed by the Parties. **THE EXCLUSIVE VENUE AND JURISDICTION FOR THE ENFORCEMENT OF ANY RIGHT, BENEFIT, REMEDY OR CAUSE OF ACTION UNDER OR DECLARATION REFERABLE TO THIS AGREEMENT SHALL BE THE FEDERAL OR STATE DISTRICT COURTS IN HOUSTON, HARRIS COUNTY, TEXAS. EACH PARTY TO THE AGREEMENT IRREVOCABLY CONSENTS TO BE SUBJECT TO SUCH VENUE AND JURISDICTION IN HOUSTON, HARRIS COUNTY, TEXAS, AND ACKNOWLEDGES THAT SAID COUNTY IS THE EXCLUSIVE COUNTY FOR VENUE AND JURISDICTIONAL PURPOSES.**

(e) Severability. If for any reason, any provision of this Agreement is held invalid, unenforceable or void, under present or future laws, such provisions shall be fully severable as if such invalid or unenforceable provisions had never comprised a part of this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the invalid, unenforceable or void provisions or by its severance from this Agreement. Furthermore, in lieu of such invalid, unenforceable or void provisions, there shall be automatically inserted as a part of this Agreement, a provision as similar in terms to such illegal, invalid, unenforceable or void provisions as may be possible and be legal, valid, and enforceable.

(f) Binding Effect. This Agreement shall be binding upon and inure to the benefits of the Parties hereto, their respective heirs, successors and assigns.

(g) Public Announcement Notification: The Parties hereto agree that prior to making any public announcement or statement with respect to the North Bonanza Unit Project, the Party desiring to make such public announcement or statement shall provide the other Parties with a copy of the proposed announcement or statement at least two (2) business days prior to the intended release date of such announcement. The other Parties shall thereafter consult with the Party desiring to make the release, and all the Parties shall exercise their reasonable best efforts to (i) agree, in writing, upon the text of a joint public announcement or statement to be made by all Parties or (ii) in the case of a statement to be made solely by one Party, obtain written approval of the other Parties hereto to the text of a public announcement or statement. Nothing contained in this subparagraph (g) shall be construed to require any Party to obtain approval of the other Parties hereto to disclose information with respect to the North Bonanza Unit Project to any State or Federal governmental authority or agency and/or Lessor to the extent required by Applicable Law or necessary to comply with disclosure requirements of the New York Stock Exchange or any other regulated stock exchange, or to comply with the terms of the governing WestStar Leases and Contingent Leases.

(h) Counterparts: This Agreement may be signed in counterparts, each of which shall be considered a binding original, provided, however, that in the event this Agreement is not signed by all Parties it shall be deemed null and void.

(i) Headings. Headings used in this Agreement are inserted for convenience only and shall not affect the interpretation of any of the provisions of this Agreement.

(j) Force Majeure. All obligations imposed by this Agreement all Parties, except for the payment of money, shall be suspended and all periods of time for exercising any rights hereunder shall be extended for a cumulative time which shall not exceed six (6) months while compliance is prevented, in whole or part, by “**Force Majeure**”, which shall mean a labor dispute, fire, flood, war, acts of terrorism, civil disturbance, laws, governmental rules, regulation, orders, action or governmental delay, inability to secure equipment or materials shortage, or any other similar cause beyond the reasonable control of the Party claiming relief hereunder; provided, however, that such Party shall promptly take all reasonable action to remove the Force Majeure, and provided further, that no Party shall be required against their will to settle any labor dispute.

(k) Reimbursement of Operational Costs Incurred to Date: Participant shall reimburse WestStar for fifty percent (50%) of any costs actually incurred by WestStar prior to the Effective Date, or after the Effective Date and actually paid by WestStar which are attributable to costs normally incurred and charged under an AFE, including but not limited to, costs associated with permitting, mitigation, surveying, unitization, drilling title opinions and related abstracts and/or acquiring of surface use agreements for the Initial Test Well (“**Operational Costs**”) and shall pay fifty percent (50%) of such any such related costs that are incurred by the Parties after the Effective Date if normally charged to the AFE. WestStar estimates that the costs prior to the Effective Date will be \$10,000.00, more or less. Participant shall reimburse WestStar within thirty (30) days after receipt of the appropriate invoice from WestStar.

(l) Mutual Representations and Warranties: All Parties represent and warrant to the others that:

- (a) it is either: (i) a corporation duly organized, validly existing and in good standing under the laws of the State of its incorporation, and is duly qualified to do business in the States in which the Assigned Interests are located; or (ii) a limited partnership validly existing and qualified to do business in the State in which the Assigned Interests are located;
- (b) it has authority necessary to enter into this Participation Agreement and to perform all its obligations hereunder;

- (c) its execution, delivery and performance of this Agreement and the transactions contemplated hereby will not: (i) violate or conflict with any provision of its Certificate of Incorporation, By-Laws or other governing documents; (ii) violate or conflict with any provision of its limited partnership agreement; (iii) result in the breach of any term or condition of, or constitute a default or cause the acceleration of any obligation under, any agreement or instrument to which it is a party, by which it is bound or included in or affecting any of the Assigned Interests; or (iv) violate or conflict with any applicable judgment, decree, order, permit, law, rule or regulation;
- (d) this Participation Agreement has been duly executed and delivered on its behalf;
- (e) this Participation Agreement, and all such documents and instruments shall constitute legal, valid and binding obligations enforceable in accordance with their respective terms, except to the extent enforceability may be affected by bankruptcy, reorganization, insolvency or similar laws affecting creditors' rights generally.

(m) WestStar's Representations and Warranties. By its execution of this Agreement, WestStar represents and warrants to Participant that the following statements are true and accurate, as of the execution of this Agreement, the Effective Date and the Closing Date.

- (a) Except for those disclosed on **Exhibit "K"** attached hereto and made a part hereof, there is no written claim or demand, investigation, filing (including lis pendens filings and abstracts of judgment), lawsuit, or other legal proceeding of any kind or nature, pending or threatened in writing with respect to the Assigned Interests.
- (b) To WestStar's knowledge and except as disclosed in writing to Participant prior to Closing, the Assigned Interests (i) are in compliance with applicable Environmental Laws, (ii) are not subject to any consent order, decree, or judgment in existence at this time based on any Environmental Laws that negatively impact the future use or value of any portion of the Assigned Interests, or that require any change in the present condition of any of the Assigned Interests, (iii) are not subject to any uncured notices of violations of or noncompliance with any applicable Environmental Laws; and (iv) are not subject to any claims, demands or lawsuits by any landowner.

(n) Further Assurances. Participant and WestStar shall use all reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable to carry out all of their respective obligations under this Agreement and to consummate and make effective the purchase and sale of the Assigned Interest pursuant to this Agreement. After the Effective Date herein, the Parties shall execute, acknowledge and deliver all such further conveyances, notices, assumptions and such other instruments, and shall take such further actions, as may be necessary or appropriate to assure fully to the Parties the transactions contemplated herein.

(o) Term. Unless terminated at an earlier time by mutual written agreement of the Parties, this Agreement shall remain in effect until termination of the North Bonanza Unit Agreement and Unit Operating Agreement or the Operating Agreement.

IT WITNESS WHEREOF, this Agreement is executed by the Parties hereto this 26th day of March, 2004, to be effective; however, as of the Effective Date.

WESTSTAR EXPLORATION COMPANY

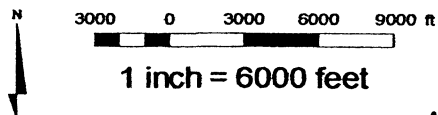
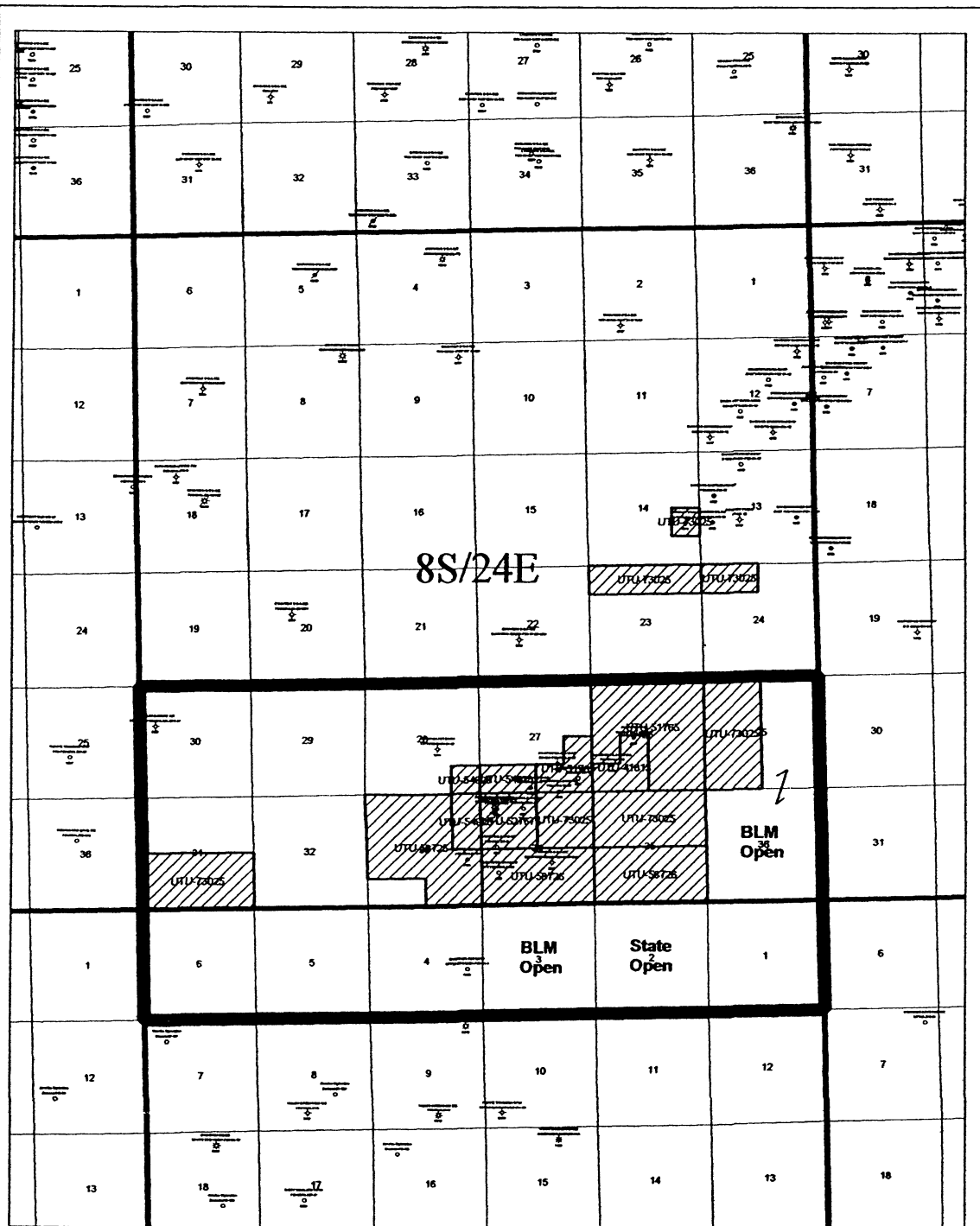
By: William C. Gilmore
William C. Gilmore
President

THE HOUSTON EXPLORATION COMPANY

By: Tracy Price 
Tracy Price
Senior Vice-President - Land

LISTING OF EXHIBITS

Exhibit A:	Plat of North Bonanza Unit Project
Exhibit B:	Operating Agreement with Exhibits
Exhibit C:	Area of Mutual Interest Plat
Exhibit D:	AFE-Initial Test Well
Exhibit E:	WestStar Leases
Exhibit E-1:	Contingent Leases
Exhibit F:	Natural Gas Pipeline Plat
Exhibit G:	Excluded Wellbores, Facilities, Agreements
Exhibit H:	Partial Assignment of Oil and Gas Lease-WestStar Leases
Exhibit I:	Assignment, Bill of Sale and Conveyance
Exhibit J:	Deed of Reconveyance
Exhibit K:	Unreleased Mortgages and Liens



North Bonanza Unit Project Exhibit "A"

Attached to and made a part of that certain Participation Agreement
dated effective March 1, 2004 by and between
The Houston Exploration Company and WestStar Exploration Company

**North Bonanza Unit
Project**

MODEL FORM OPERATING AGREEMENT

Exhibit "B"

**Attached to and made a part of that certain Participation Agreement dated
effective March 1, 2004, by and between the Houston Exploration Company
and WestStar Exploration Company**

OPERATING AGREEMENT

DATED

March 1 , 2004 ;
year

OPERATOR WestStar Exploration Company

CONTRACT AREA North Bonanza Unit Project

COUNTY OR ~~PARISH~~ OF Uintah , STATE OF Utah

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD.
FORT WORTH, TEXAS, 76137, APPROVED FORM

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between WestStar Exploration Company, hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators "

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows

ARTICLE I.
DEFINITIONS

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

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

B The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation

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

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

E The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement

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

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

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

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

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

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

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

M The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement

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

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

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

Q The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties

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

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

ARTICLE II.
EXHIBITS

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

- X A Exhibit "A," shall include the following information
 - (1) Description of lands subject to this agreement,
 - (2) Restrictions, if any, as to depths, formations, or substances,
 - (3) Parties to agreement with addresses and telephone numbers for notice purposes,
 - (4) Percentages or fractional interests of parties to this agreement,
 - (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
 - (6) Burdens on production
- B Exhibit "B," Form of Lease
- X C Exhibit "C," Accounting Procedure
- X D Exhibit "D," Insurance.
- X E Exhibit "E," Gas Balancing Agreement.
- X F Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities
- G Exhibit "G," Tax Partnership
- X H. Other Exhibit "H" Memorandum of Operating Agreement and Financial Statement _____

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

ARTICLE III.

INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B Interests of Parties in Costs and Production

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter

Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or ~~cause to be paid or delivered,~~ all burdens on its share of the production from the Contract Area up to, but not in excess of, ~~the lease burdens existing and~~ filed of record on March 1, 2004 and shall indemnify, defend and hold the other parties free from any liability therefor

Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefor

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

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

C Subsequently Created Interests.

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

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

ARTICLE IV.

TITLES

A. Title Examination:

Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in procuring abstracts, fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in royalty opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

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

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

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

B. Loss or Failure of Title:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator, such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V A or material failure or inability to perform its obligations under this agreement.

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

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

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

C. Employees and Contractors:

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

D. Rights and Duties of Operator:

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

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

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

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

3 4 Custody of Funds Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced
4 or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the
5 Contract Area, and such funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until
6 used for their intended purpose or otherwise delivered to the Non-Operators or applied toward the payment of debts as
7 provided in Article VII B. Nothing in this paragraph shall be construed to establish a fiduciary relationship between Operator
8 and Non-Operators for any purpose other than to account for Non-Operator funds as herein specifically provided. Nothing in
9 this paragraph shall require the maintenance by Operator of separate accounts for the funds of Non-Operators unless the
10 parties otherwise specifically agree

11 5 Access to Contract Area and Records Operator shall, except as otherwise provided herein, permit each Non-Operator
12 or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to
13 all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of
14 operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access
15 rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate
16 Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such
17 interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any
18 and all reports and information obtained by Operator in connection with production and related items, including, without
19 limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding
20 purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the
21 information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures
22 shall be conducted in accordance with the audit protocol specified in Exhibit "C."

23 6 Filing and Furnishing Governmental Reports Operator will file, and upon written request promptly furnish copies to
24 each requesting Non-Operator not in default of its payment obligations, all operational notices, reports or applications
25 required to be filed by local, State, Federal or Indian agencies or authorities having jurisdiction over operations hereunder.
26 Each Non-Operator shall provide to Operator on a timely basis all information necessary to Operator to make such filings

27 7 Drilling and Testing Operations The following provisions shall apply to each well drilled hereunder, including but not
28 limited to the Initial Well

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

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

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

36 8 Cost Estimates Upon request of any Consenting Party, Operator shall furnish estimates of current and cumulative costs
37 incurred for the joint account at reasonable intervals during the conduct of any operation pursuant to this agreement.
38 Operator shall not be held liable for errors in such estimates so long as the estimates are made in good faith

39 9 Insurance At all times while operations are conducted hereunder, Operator shall comply with the workers
40 compensation law of the state where the operations are being conducted, provided, however, that Operator may be a self-
41 insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall
42 be as provided in Exhibit "C." Operator shall also carry or provide insurance for the benefit of the joint account of the parties
43 as outlined in Exhibit "D" attached hereto and made a part hereof. Operator shall require all contractors engaged in work on
44 or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted
45 and to maintain such other insurance as Operator may require

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

ARTICLE VI. DRILLING AND DEVELOPMENT

A. Initial Well:

52 On or before the _____ day of _____, _____, Operator shall commence the ^{deepening}drilling of the Initial
53 Well at the following location

54 Q-T Federal 34 No. 1 Well (API #43-047-3190700S1) located in Section 34, T8S-R24E, Uintah County, Utah

60 and shall thereafter continue the ^{deepening}drilling of the well with due diligence to 8,350 or to a depth sufficient to test the Mancos Formation

67 The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VIC 1 as to participation
68 in Completion operations and Article VIF as to termination of operations and Article XI as to occurrence of force majeure

B. Subsequent Operations:

70 1 Proposed Operations If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or
71 if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of
72 producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under
73 this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written
74 notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone

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

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

2 Operations by Less Than All Parties

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

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

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

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1 Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VIC1 Option No 2, all of such Non-
 2 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect
 3 to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or
 4 market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes,
 5 royalty, overriding royalty and other interests not excepted by Article III C payable out of or measured by the production
 6 from such well accruing with respect to such interest until it reverts), shall equal the total of the following

7 (i) 200 % of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment
 8 beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and
 9 piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first
 10 production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other
 11 provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that
 12 interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning
 13 of the operations, and

14 (ii) 400 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening,
 15 Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII C,
 16 and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections),
 17 which would have been chargeable to such Non-Consenting Party if it had participated therein

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

27 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or
 28 Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in
 29 such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full
 30 recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to
 31 participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking
 32 operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at
 33 any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such
 34 Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be deemed part of the
 35 cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 400 % of
 36 that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to
 37 such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is
 38 proposed during such recoupment period, the provisions of this Article VIB shall be applicable as between said Consenting
 39 Parties in said well

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

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

49 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations
 50 for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to
 51 the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing,
 52 Recompleting, and equipping the well for production, or, at its option, the operating party, in lieu of an itemized statement
 53 of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the
 54 Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties
 55 shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of
 56 the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from
 57 the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas
 58 produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or
 59 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with
 60 any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited
 61 against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such
 62 Non-Consenting Party shall revert to it as above provided, and if there is a credit balance, it shall be paid to such Non-
 63 Consenting Party

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

72 3 Stand By Costs. When a well which has been drilled or Deepened has reached its authorized depth and all tests have
 73 been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise
 74 terminated pursuant to Article VIF., stand-by costs incurred pending response to a party's notice proposing a Reworking,

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

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

16 4 Deepening. If less than all parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed
17 pursuant to Article VIB 1, the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article
18 VIB 2 shall relate only and be limited to the lesser of (i) the total depth actually drilled or (ii) the objective depth or Zone
19 of which the parties were given notice under Article VIB 1 ("Initial Objective"). Such well shall not be Deepened beyond the
20 Initial Objective without first complying with this Article to afford the Non-Consenting Parties the opportunity to participate
21 in the Deepening operation.

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

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

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

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

51 5 Sidetracking. Any party having the right to participate in a proposed Sidetracking operation that does not own an
52 interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its
53 proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore
54 to be utilized as follows:

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

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

62 6 Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to
63 propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such
64 party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform
65 an operation on a well where no drilling rig is on location or twenty four (24) hours, ^{inclusive} of Saturday, Sunday and legal
66 holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be
67 conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such
68 alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such
69 proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within
70 twenty four (24) hours ^{inclusive} of Saturday, Sunday and legal holidays if a drilling rig is on location for the well that is the
71 subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required
72 shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage
73 interest of the parties voting shall have priority over all other competing proposals, in the case of a tie vote, the
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1 initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation
 2 within five (5) days after expiration of the election period (or within twenty-four (24) hours, ^{inclusive} ~~exclusive~~ of Saturday, Sunday
 3 and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty-four (24) hours if a rig
 4 is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to
 5 relinquish interest in the affected well pursuant to the provisions of Article VIB 2, failure by a party to deliver notice within
 6 such period shall be deemed an election not to participate in the prevailing proposal.

7 7 Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VIB 2, it is agreed that no wells shall be
 8 proposed to be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract
 9 Area is producing, unless such well conforms to the then-existing well spacing pattern for such Zone.

10 8 Paying Wells. No party shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or
 11 Sidetracking operation under this agreement with respect to any well then capable of producing in paying quantities except
 12 with the consent of all parties that have not relinquished interests in the well at the time of such operation.

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

14 1 Completion. Without the consent of all parties, no well shall be drilled, Deepened or Sidetracked, except any well
 15 drilled, Deepened or Sidetracked pursuant to the provisions of Article VIB 2 of this agreement. Consent to the drilling,
 16 Deepening or Sidetracking shall include:

17 ☐ ~~Option No. 1. All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and~~
 18 ~~equipping of the well, including necessary tankage and/or surface facilities.~~

19 ☒ Option No. 2. All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When
 20 such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results
 21 thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to
 22 participate in a Completion attempt whether or not Operator recommends attempting to Complete the well,
 23 together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice
 24 shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of
 25 notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an
 26 accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting
 27 with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the
 28 procedures specified in Article VIB 6. Election to participate in a Completion attempt shall include consent to all
 29 necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface
 30 facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any party
 31 receiving such notice to reply within the period above fixed shall constitute an election by that party not to
 32 participate in the cost of the Completion attempt, provided, that Article VIB 6 shall control in the case of
 33 conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the
 34 provision of Article VIB 2 hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging
 35 Back" as contained in Article VIB 2 shall be deemed to include "Completing") shall apply to the operations
 36 thereafter conducted by less than all parties, provided, however, that Article VIB 2 shall apply separately to each
 37 separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting
 38 Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party
 39 in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier
 40 Completions or Recompletion have recouped their costs pursuant to Article VIB 2, provided further, that any
 41 recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in
 42 which the Completion attempt is made. Election by a previous Non-Consenting party to participate in a subsequent
 43 Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvageable
 44 materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt,
 45 insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a
 46 Completion attempt.

47 2 Rework, Recomplete or Plug Back. No well shall be Reworked, Recompleted or Plugged Back except a well Reworked,
 48 Recompleted, or Plugged Back pursuant to the provisions of Article VIB 2 of this agreement. Consent to the Reworking,
 49 Recompleting or Plugging Back of a well shall include all necessary expenditures in conducting such operations and
 50 Completing and equipping of said well, including necessary tankage and/or surface facilities.

51 D. Other Operations:

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifty Thousand
 53 Dollars (\$ 50,000.00) except in connection with the
 54 drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously
 55 authorized by or pursuant to this agreement, provided, however, that, in case of explosion, fire, flood or other sudden
 56 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion
 57 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the
 58 emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so
 59 requesting an information copy thereof for any single project costing in excess of Fifty Thousand Dollars
 60 (\$ 50,000.00).

61 Any party who has not relinquished its interest in a well shall have the right to propose that
 62 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as
 63 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but
 64 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall
 65 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the
 66 amount first set forth above in this Article VID (except in connection with an operation required to be proposed under
 67 Articles VIB 1 or VIC 1 Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such
 68 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent
 69 of any party or parties owning at least 51 % of the interests of the parties entitled to participate in such operation,
 70 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated
 71 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms
 72 of the proposal.

72 E. Abandonment of Wells:

73 1 Abandonment of Dry Holes. Except for any well drilled or Deepened pursuant to Article VIB 2, any well which has
 74 been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

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

15 2 Abandonment of Wells That Have Produced. Except for any well in which a Non-Consent operation has been
 16 conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has
 17 been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to
 18 such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk
 19 and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed
 20 abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) days after delivery of notice of the
 21 proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its
 22 operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the
 23 applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties
 24 against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide
 25 proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well
 26 within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession
 27 of such well and plug and abandon the well.

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

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

51 3 Abandonment of Non-Consent Operations. The provisions of Article VI E 1 or VI E 2 above shall be applicable as
 52 between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles, provided,
 53 however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further
 54 operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well
 55 in accordance with the provisions of this Article VI E, and provided further, that Non-Consenting Parties who own an interest
 56 in a portion of the well shall pay their proportionate shares of abandonment and surface restoration cost for such well as
 57 provided in Article VI B 2 (b).

58 F. Termination of Operations:

59 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,
 60 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without
 61 consent of parties bearing 51 % of the costs of such operation, provided, however, that in the event granite or other
 62 practically impenetrable substance or condition in the hole is encountered which renders further operations impractical,
 63 Operator may discontinue operations and give notice of such condition in the manner provided in Article VI B 1, and the
 64 provisions of Article VI B or VI E shall thereafter apply to such operation, as appropriate.

65 G. Taking Production in Kind:

66 ☒ Option No. 1: Gas Balancing Agreement Attached

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

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

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

2 If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate
3 share of the Oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by
4 the party owning it, but not the obligation, to purchase such Oil or sell it to others at any time and from time to
5 time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by
6 Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to
7 the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any
8 time its right to take in kind, or separately dispose of, its share of all Oil not previously delivered to a purchaser.
9 Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time
10 as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a
11 period in excess of one (1) year.

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

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

22 In the event one or more parties' separate disposition of its share of the Gas causes split stream deliveries to separate
23 pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportion-
24 ate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with
25 any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a
26 separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

27 ~~B. Option No. 2: No Gas Balancing Agreement~~

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

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

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

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

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

62 **ARTICLE VII.**

63 **EXPENDITURES AND LIABILITY OF PARTIES**

64 **A. Liability of Parties:**

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

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B Liens and Security Interests:

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

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

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

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

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

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

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

C. Advances:

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

D. Defaults and Remedies:

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

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

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

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

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

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

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

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

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV B 23.

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

F. Taxes:

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

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

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

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Assignment; Maintenance of Uniform Interest:

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

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

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

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

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

E. Waiver of Rights to Partition:

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

F. Preferential Right to Purchase:

☒ (Optional, Check if applicable)

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

ARTICLE IX.

INTERNAL REVENUE CODE ELECTION

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.

CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand Dollars (\$ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be a joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

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ARTICLE XI.
FORCE MAJEURE

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

☒ Option No. 1 So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.

☐ Option No. 2 In the event the well described in Article VI A, or any subsequent well drilled under any provision of this agreement, results in the completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of _____ days thereafter, provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI A, or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within _____ days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV. MISCELLANEOUS

A. Execution:

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

B. Successors and Assigns:

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

C. Counterparts:

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

D. Severability:

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

ARTICLE XVI. OTHER PROVISIONS

A. Conflict of Terms:

This Operating Agreement is subject to the terms and provisions of the following agreement:

Participation Agreement dated effective March 1, 2004, by and between WestStar Exploration Company and The Houston Exploration Company.

In the event of a conflict between the terms and provisions of this Operating Agreement and the above described Agreement, the terms and provisions of the Agreement shall control. In the event of a conflict between interlineations and/or changes to the published form hereof and the provisions of the published form, the interlineations and/or changes shall control. In the event of a conflict between the provisions of this Article XVI and any other provisions of the Operating Agreement, the provisions of this Article XVI shall control.

B. Required Operation:

Notwithstanding anything to the contrary contained in this Operating Agreement, the Parties hereto agree that the non-consent provisions of Article VI, Section B.2 shall not apply to any operation within the Contract Area which is deemed to be a "required operation". A "required operation" is defined for the purposes of this Operating Agreement as any well or subsequent operation, other than the Initial Test Well, required or necessary to: (i) maintain any lease subject to this Operating Agreement in effect as to any lands or depths covered thereby (or a portion thereof) which would terminate within 120 days following the date of the proposal of said well or operation; or (ii) acquire or earn an interest in any lease or any portion thereof covering the Contract Area under any contract or agreement if the right to acquire or earn would terminate within 120 days of the date of such proposal. The effect of this provision may be avoided by the extension or renewal of the expiring leases, contracts or agreements on or before the expiration of the time period set forth in Article VI, Section B.1 following the date of such proposal within which the proposed operation must commence. If the extension or renewal of the lease, contract or agreement imposes additional burdens, the same shall be assumed and borne by the Parties who secured the extension or renewal.

Each Non-Consenting Party to such required operation shall assign to the Consenting Parties, in proportion to their interests, all of the Non-Consenting Party's interest in and to the leases, contract or agreement, or interest therein, which would be lost or not earned or acquired if such operation was not

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conducted. Such assignment shall be made without warranty of title except as to claims by, through or under the Non-Consenting Party and the interests so assigned shall be free and clear of all overriding royalties, production payments, mortgages, liens and other burdens and encumbrances placed thereon by the Non-Consenting Party or resulting from its ownership or operation thereof, which are not a joint obligation of the Parties. The remainder of the interests of the Non-Consenting Party in and to the leases, contract or agreement, or interest therein which are subject to the proposed required operation shall be subject to the terms and provisions of Article VI.B.2. Nothing herein shall be construed as requiring a relinquishment of such Non-Consenting Party's interest in any producing wells or units, or in any other wells then being drilled, reworked, or shut-in for the joint account.

C. Sequence of Further Operations:

It is agreed that where a well, which has been authorized under the terms of this Agreement, by all Parties, or by one or more but less than all Parties under Article VI, Sections B. 1 or 2 shall have been drilled to the objective depth or the objective formation, whichever is shallower, and the Drilling Parties in the well cannot mutually agree upon the sequence and timing of further operations regarding said well, the following elections shall control in the order enumerated hereafter:

- (1) An election to do additional logging, coring or testing;
- (2) An election to attempt to complete the well at either the objective depth or objective formation;
- (3) An election to plug back and attempt to complete said well;
- (4) An election to deepen said well;
- (5) An election to sidetrack the well;
- (6) An election to plug and abandon said well.

If at the time said Drilling Parties are considering any of the above elections, the hole is in such a condition that a reasonably prudent operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy or losing the same prior to completing the well in the objective depth or objective formation, such election shall not be given the priority hereinabove set forth.

It is further understood that if some, but not all of the Parties elect to participate in the additional logging, coring, or testing, the Party or Parties, not participating in such operation shall not be entitled to data resulting from the operation but will suffer no other penalty.

D. Excessive Costs.

When it becomes apparent to Operator, exercising good faith judgment, that actual drilling or completion costs expended or that will be expended for any well hereunder will exceed 125% of the approved AFE costs for such operation, then Operator shall furnish to Non-Operators a supplemental AFE and a summary description of the cost overrun ("Cost Overrun Notice"). The Cost Overrun Notice shall at a minimum indicate the reason for the excessive costs and include a recommendation for controlling such costs. Operator shall control further expenditures so far as possible to the level projected when the Cost Overrun Notice is forwarded to the Non-operators.

Subject to Non-Operator's and Operators obligation to pay its Working Interest share of all costs necessary to deal with previously contracted services or for its share of the costs of blowouts, explosions, fires, floods, or any other sudden emergency, whether of the same or different nature, then Operator or Non-Operators may within forty eight (48) hours of their receipt of the Cost Overrun Notice: (a) elect to non-consent to any further proposed operations from that point in time that costs actually exceed 125% of the approved costs in like manner and within the time provided by Article VI.B. with the penalty portions of the non-consent only applying to costs from that point in time that costs actually exceed 125% of the approved costs, provided, however, that if all Parties elect to go non-consent, then the costs of preparing for and plugging and abandoning the well shall be borne in the same proportions as original participation in the well; or (b) continue to participate in the drilling and completion of the well, and proceed hereunder without any further options under this Section as to such well.

Failure by any Non-Operator to respond to the Cost Overrun Notice hereunder within the forty eight (48) hour period set forth above shall be deemed an election under subparagraph (b) above.

Notwithstanding anything contained in this Article to the contrary, no Party hereto may elect to non-consent any further operations for the following reasons or circumstances: (a) such operations are underway to fulfill state or federal regulatory required action; (b) to avoid plugging and abandonment costs, or (c) if the well is not in condition to stop operations and abandon the well in accordance with state regulations.

E. Information:

It is specifically understood that each and every Non-Consenting Party shall not be entitled to data or information obtained from a well or operation in which such Non-Consenting Party elected not to participate until such well or operation has paid out pursuant to Article VI.

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F. Confidential Information:

Except as otherwise provided herein, all geophysical, geological, engineering data, production data, title information, well information as set forth in this Article XVI, and any other information or data acquired by the Parties under this Agreement as a result of joint operations conducted hereunder, regardless of whether the same is a matter of public knowledge or record, shall not be revealed or disclosed to any third party and shall be held strictly confidential by the Parties unless the release, revelation or disclosure of such information to a third party is agreed upon by the Parties or is required by law.

G. Venue:

In addition to the provisions provided for in Article XIV. B., THE EXCLUSIVE VENUE AND JURISDICTION FOR THE ENFORCEMENT OF ANY RIGHT, BENEFIT, REMEDY OR CAUSE OF ACTION UNDER OR DECLARATION REFERABLE TO THIS AGREEMENT SHALL BE THE FEDERAL OR STATE DISTRICT COURTS IN HOUSTON, HARRIS COUNTY, TEXAS. EACH PARTY TO THIS AGREEMENT IRREVOCABLY CONSENTS TO BE SUBJECT TO SUCH VENUE AND JURISDICTION IN HOUSTON, HARRIS COUNTY, TEXAS, AND ACKNOWLEDGES THAT SAID COUNTY IS THE EXCLUSIVE COUNTY FOR VENUE AND JURISDICTIONAL PURPOSES.

H. Regulatory Filings

Except for ordinary and usual filings necessary to operate wells, Operator shall be entitled to make a direct charge to the Joint Account for (i) the costs and expenses (including salaries, wages, consultant fees and attorneys fees) incurred in connection with the preparation, filing, and/or presentation at hearings, meetings or conferences of any applications, permits, reports, evidence, exhibits and the like with the any federal, state or local governmental or regulatory entity or agency having jurisdiction over the Contract Area, and in connection with the attendance at any hearings, meetings or conferences; and (ii) the actual costs, expenses and salary or wages incurred in connection with the preparation of title opinions and the associated curative work.

I. Operator, Contractors and Subcontractor Compliance:

Operator shall use reasonable efforts to comply, and require that all of Operator's contractors and subcontractors also comply, with any and all applicable laws and regulations, Federal, State and local and with the requirements of any regulatory body or official asserting jurisdiction over Operator's operations hereunder including applications for any permit or authorization for such operations, filed with any government authority.

Operator shall use reasonable efforts to comply with the express and implied obligations of the leases subject to this agreement and agrees in plugging of all wells to remove all waste products, fill in all pits and restore the Lands as nearly as possible to their original condition.

J. Advance Billing for Certain Operations:

In addition to the rights granted to Operator pursuant to Article VII. C., Operator, at its election, shall have the right from time to time to demand and receive in advance from Non Operator payment of its respective proportionate share of the estimated cost to be incurred in connection with any drilling, reworking, deepening, sidetracking, plugging-back, or completion operation proposed hereunder or any other operation undertaken pursuant hereto that is reasonably estimated to require an expenditure in excess of Fifty Thousand Dollars (\$50,000.00), as reflected in an authority for expenditure ("AFE") provided by Operator to Non Operator in connection with the relevant operation, provided however that such operation is to be actually commenced by the Operator within the next thirty (30) days. Such advanced payments to Operator by Non-Operators shall be held in a separate account set up by Operator so that the advanced funds are not commingled with Operators other funds or accounts. In the case of a proposal for the drilling of a well, any such advance invoice shall cover only the estimated cost to drill the relevant well to its total depth, to conduct open-hole tests therein prior to a completion attempt, and to plug and abandon the same as a dry hole. Proper adjustment between such advances and the actual expenses incurred shall be made upon the completion of the relevant operation to the end that such party shall bear and pay its proportionate share of the actual expenses incurred, and no more.

K. Gas Sales.

The Operator and each Party shall have the right to separately market its share of gas produced hereunder; however, in the event a Party to this Agreement, including Operator, executes a contract for the purchase of its gas produced hereunder, it shall assure that all other Parties to this Agreement shall have the right, but not the obligation, to become a Party to such contract for the sale of its gas produced hereunder; however, if the executing/selling Party is selling to an affiliate, then the other Parties shall have the right to receive for their gas the gross proceeds received by the affiliate from a sale to an unaffiliated third Party.

Notwithstanding the provisions of Article VI.C. and the provisions of Exhibit "E" to the contrary, in the event any Party shall fail to make the arrangement necessary to take-in-kind or separately dispose of its share of gas production from the Contract Area, the non-taking Party shall have the right to request that

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the Operator purchase or sell to others such gas production for the account of the non-taking Party at the same price at which Operator sells its own production, and the Operator shall have the right, but not the obligation, to do so. Such requests shall be revocable by the Party owning such production at such times as are consistent with the terms of the gas sales contract and the owner of such production may, accordingly, exercise its right to revoke such request and to take-in-kind or separately dispose of its share of gas production from the Contract Area, or to elect to be an "underproduced Party" under the terms of Exhibit "E", Gas Balancing Agreement. Any purchase or sale by Operator of any Party's share of gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under particular circumstances, but in no event for a period in excess of one (1) year.

L. Successors and Assigns:

This Operating Agreement shall be binding upon and shall inure to the benefit of the Parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes. Any Party to this Agreement who assigns all or part of its interest to another party shall provide in such assignment that the interest assigned is subject to this Agreement and shall furnish Operator with a copy of such recorded assignment within thirty (30) days after the effective date thereof.

M. Arbitration.

The Parties hereto agree that any dispute that arises with respect to this agreement shall be arbitrated in accordance with the Texas General Arbitration Act ("Act") and the Rules of the American Arbitration Association ("Rules") and that the decision of the Arbitrator rendered pursuant to the Act and Rules shall be binding upon the Parties and may be enforced in any Court of Competent Jurisdiction. Any arbitration proceedings pursuant to this agreement shall be held in Houston, Harris County, Texas. The Arbitrator shall not award punitive, consequential, nor multiple damages in settlement of any dispute.

N. Removal of Operator

At any time after the drilling of the Initial Well, The Houston Exploration Company shall have the right to take over as Operator of the Contract Area. The Houston Exploration Company shall give written notice to Operator of its decision to take over as Operator, and Operator shall resign as Operator and The Houston Exploration Company shall be designated as Successor Operator pursuant to and in accordance with the terms provided for in Article V. B.

O. Memorandum of Operating Agreement

Each Party agrees to enter into the Memorandum of Operating Agreement and Financing Agreement attached to the Operating Agreement as Exhibit "H" and further agrees to record same in the appropriate records of Uintah County, Utah.

IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of March,

2004.

OPERATOR

WESTSTAR EXPLORATION COMPANY

By William C. Gilmore

William C. Gilmore
Type or print name

Title President

Date 3-26-04

Tax ID No.

NON-OPERATOR

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THE HOUSTON EXPLORATION COMPANY

By

Tracy Price

Type or print name

Title Sr. Vice-President - Land

Date MARCH 26, 2004

Tax ID No. 22-2674487

ACKNOWLEDGMENTS

THE STATE OF TEXAS

§

COUNTY OF HARRIS

§

§

On this 26th day of March, 2004 before me appeared William C. Gilmore, to me personally known, who, being by me duly sworn (or affirmed) did say that he is President of WestStar Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that William C. Gilmore acknowledged the instrument to be the free act and deed of the corporation.



Sandra F. Franklin Notary Public in
and for The State of Texas

THE STATE OF TEXAS

§

COUNTY OF HARRIS

§

§

On this 26th day of March, 2004 before me appeared Tracy Price, to me personally known, who, being by me duly sworn (or affirmed) did say that he is Senior Vice President - Land of The Houston Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that Tracy Price acknowledged the instrument to be the free act and deed of the corporation.

[SEAL]

Sandra F. Franklin Notary Public in and for
The State of Texas

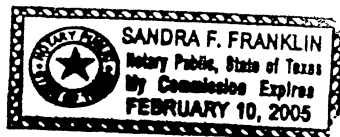


EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated effective March 1, 2004 by and between WestStar Exploration Company, as Operator and The Houston Exploration Company, as Non Operator.

I. CONTRACT AREA – LANDS

As shown on Plat attached as Exhibit A-1

II. DEPTHS COVERED

All Depths below the stratigraphic equivalent of the base of the Green River Formation as seen at 4,323 feet in the neutron log for the WestStar Raging Bull No. 1 well (API #43-047-3134400S1).

III. EXCLUDED WELLBORES

<u>Well Name</u>	<u>Location</u>	<u>BLM Ls No</u>	<u>API No</u>
Federal 27-1	SESW, Sec 27	UTU-54928	43-047-3184700S1
Federal 27-2	SWSE, Sec 27	UTU-52765	43-047-3187700S1
Federal 27-3	SESE, Sec 27	UTU-52765	43-047-3189000S1
Federal 26-1	NWSW, Sec 26	UTU-52765	43-047-3190500S1
Raging Bull 1	NESW, Sec 26	UTU-41813	43-047-3134400S1
Federal 34-1	NWNW, Sec 34	UTU-52767	43-047-3186200S1
Federal 34-2	NENW, Sec 34	UTU-52767	43-047-3189100S1
Federal 34-3	SWNW, Sec 34	UTU-52767	43-047-3190900S1
Fed 33-1	NESE, Sec 33	UTU-58725	43-047-3190400S1

IV. INTERESTS OF THE PARTIES

<u>Owner</u>	<u>Working Interest</u>
Weststar Exploration Company	50.00%
The Houston Exploration Company	50.00%
Total:	100.00%

V. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT

As shown on Exhibit A-2, attached hereto and made a part hereof.

VI. NOTICES

Weststar Exploration Company
 811 Rusk, Suite 710
 Houston, Texas 77002
 Attn: William C. Gilmore
 Phone: (713) 223-5837
 Fax: (253) 679-9008
 E-mail: oilandgasproduction@yahoo.com

The Houston Exploration Company
 1100 Louisiana, Suite 2000
 Houston, Texas 777002-5215
 Attn: Greg Davis
 Phone: (713) 830-6949
 Fax: (713) 754-6388
 E-mail: gdavis@houstonexp.com

1 inch = 6000 feet

North Bonanza Unit Project Exhibit "A-1"

Attached to and made a part of that certain Operating Agreement dated effective March 1, 2004, by and between WestStar Exploration Company, as Operator, and The Houston Exploration Company, as Non-Operator

Contract Area

EXHIBIT "A-2"

Attached to a made a part of that certain Operating Agreement dated effective March 1, 2004 by and between
WestStar Exploration Company, as Operator, and The Houston Exploration Company, as Non-Operator.

WESTSTAR LEASES										
LSE NO.	LSE DATE EXP DATE	LESSOR NAME	LESSEE NAME	LEGAL DESCRIPTION	GROSS ACRES	NET ACRES	ROYALTY BURDEN	ORRI BURDENS	COUNTY	STATE
U-52765	May 1, 1983 HBP	United States of America, Utah State BLM Office	Davis Oil Company	<u>Township 8 South, Range 24 East, SLM</u> Section 26: E/2, NW/4, NW/4SW/4 Section 27: NE/4SE/4, S/2SE/4	640.00	640.00	Sliding Scale	7.80088%	Uintah	Utah
U-52767	May 1, 1983 HBP	United States of America, Utah State BLM Office	Peter I. Wold	<u>Township 8 South, Range 24 East, SLM</u> Section 34: NW/4	160.00	160.00	Sliding Scale	From Base of Green River Formation to 6,433' - 6.35% All other depths - 7.00%	Uintah	Utah
U-54928	October 1, 1984 HBP	United States of America, Utah State BLM Office	George Vrame	<u>Township 8 South, Range 24 East, SLM</u> Section 27: S/2SW/4 Section 28: SE/4SE/4 Section 33: E/2NE/4	200.00	200.00	Sliding Scale	From Base of Green River Formation to 6,433' - .65% All other depths - 7.00%	Uintah	Utah
U-58725	March 1, 1986 HBP	United States of America, Utah State BLM Office	Exxon Corporation	<u>Township 8 South, Range 24 East, SLM</u> Section 33: W/2NE/4, NW/4, N/2SW/4, SE/4	480.00	480.00	Sliding Scale	5.00%	Uintah	Utah
U-58726	March 1, 1986 HBP	United States of America, Utah State BLM Office	Corbin J. Robinson	<u>Township 8 South, Range 24 East, SLM</u> Tract 1 Section 34: NW/4SW/4 Tract 2 Section 34: NE/4SW/4, S/2SW/4, SE/4 Section 35: S/2	40.00 600.00	40.0 600.00	Sliding Scale Sliding Scale	7.50% 1.00%	Uintah	Utah
TOTAL					2,120.00	2,120.00				

EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement dated effective March 1, 2004 by and between WestStar Exploration Company, as Operator and The Houston Exploration Company, as Non Operator.

THERE IS NO EXHIBIT "B"

EXHIBIT "C"

COPAS 00029

Attached to and made a part of that certain Operating Agreement dated March 1, 2004, by and between WestStar Exploration Company, as Operator and The Houston Exploration Company, as Non-Operator

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

"Operator" shall mean the party designated to conduct the Joint Operations

"Non-Operators" shall mean the Parties to this agreement other than the Operator

"Parties" shall mean Operator and Non-Operators

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Citibank, New York, NY on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts

4. Adjustments

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

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1 **5. Audits**

2
3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four
5 (24) month period following the end of such calendar year; provided, however, the making of an audit shall not
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this
10 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year
11 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made
12 at the expense of those Non-Operators approving such audit.

13
14 B The Operator shall reply in writing to an audit report within 180 days after receipt of such report

15
16 **6. Approval By Non-Operators**

17
18 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this
19 Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no
20 contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the
21 agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators

22
23
24 **II. DIRECT CHARGES**

25
26 Operator shall charge the Joint Account with the following items

27
28 **1 Ecological and Environmental**

29
30 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy
31 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or
32 archaeological nature and pollution control procedures as required by applicable laws and regulations

33
34 **2. Rentals and Royalties**

35
36 Lease rentals and royalties paid by Operator for the Joint Operations

37
38 **3 Labor**

39
40 A (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of
41 Joint Operations

42
43 (2) Salaries of First level Supervisors in the field

44
45 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are
46 excluded from the overhead rates

47
48 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly
49 employed in the operation on the Joint Property if such charges are excluded from the overhead rates

50
51 B Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to
52 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.
53 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"
54 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If
55 percentage assessment is used, the rate shall be based on the Operator's cost experience.

56
57 C Expenditures or contributions made pursuant to assessments imposed by governmental authority which are
58 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II

59
60 D Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under
61 Paragraphs 3A and 3B of this Section II

62
63 **4. Employee Benefits**

64
65 Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement,
66 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the
67 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent
68 most recently recommended by the Council of Petroleum Accountants Societies

1 5. Material

2
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV Only such
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is
5 reasonably practical and consistent with efficient and economical operations The accumulation of surplus stocks shall be
6 avoided

8 6 Transportation

9
10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations
11
12 A If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties
15
16 B If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties No charge shall be
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the
20 Parties
21
22 C In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is
23 available when the actual charge is \$400 or less excluding accessorial charges The \$400 will be adjusted to the
24 amount most recently recommended by the Council of Petroleum Accountants Societies
25

26 7. Services

27
28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph
29 10 of Section II and Paragraph i, ii, and iii, of Section III The cost of professional consultant services and contract
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead
31 rates The cost of professional consultant services or contract services of technical personnel not directly engaged on the
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties
33

34 8. Equipment and Facilities Furnished By Operator

35
36 A Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to
39 exceed _____ percent (____%) per annum Such rates shall not exceed average commercial
40 rates currently prevailing in the immediate area of the Joint Property
41

42 B In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the
43 immediate area of the Joint Property less 20% For automotive equipment, Operator may elect to use rates
44 published by the Petroleum Motor Transport Association
45

46 9 Damages and Losses to Joint Property

47
48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as
51 soon as practicable after a report thereof has been received by Operator
52

53 10. Legal Expense

54
55 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and
56 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to
57 protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of
58 outside attorneys shall be made unless previously agreed to by the Parties All other legal expense is considered to be
59 covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section
60 I, Paragraph 3
61

62 11. Taxes

63
64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties If the ad
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties
68 hereto in accordance with the tax value generated by each party's working interest.
69
70

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12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

I. Overhead - Drilling and Producing Operations

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

- (X) Fixed Rate Basis, Paragraph IA, or
() Percentage Basis, Paragraph IB

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,000.00
(Prorated for less than a full month)

Producing Well Rate \$ 500.00

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

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

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

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B—Overhead—Percentage Basis

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

(a)—Development

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

(b)—Operating

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

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

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Account for overhead based on the following rates for any Major Construction project in excess of \$ 50,000.00

A. 5 % of first \$100,000 or total cost if less, plus

B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus

C. 2 % of costs in excess of \$1,000,000

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

3 Catastrophe Overhead

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

A. 5 % of total costs through \$100,000, plus

B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000, plus

C. 2 % of total costs in excess of \$1,000,000

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

4 Amendment of Rates

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

IV PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

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

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

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1 pound Oil Field Haulers Association interstate truck rate shall be used

2
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f o b Houston,
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,
5 to the railway receiving point nearest the Joint Property

6
7 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices
8 f o b the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate
9 per weight of tubing transferred to the railway receiving point nearest the Joint Property

10
11 (2) Line Pipe

12
13 (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or
14 more shall be priced under provisions of tubular goods pricing in Paragraph A (1)(a) as provided above.
15 Freight charges shall be calculated from Lorain, Ohio

16
17 (b) Line Pipe movements (except size 24 inch OD) and larger with walls 3/4 inch and over) less than 30,000
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular
20 goods pricing in Paragraph A (1)(a) as provided above Freight charges shall be calculated from Lorain,
21 Ohio

22
23 (c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f o b the point of
24 manufacture at current new published prices plus transportation cost to the railway receiving point
25 nearest the Joint Property

26
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at
29 prices agreed to by the Parties

30
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the
33 railway receiving point nearest the Joint Property

34
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint
38 Property Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2)

39
40 B Good Used Material (Condition B)

41
42 Material in sound and serviceable condition and suitable for reuse without reconditioning

43
44 (1) Material moved to the Joint Property

45
46 At seventy five percent (75%) of current new price, as determined by Paragraph A

47
48 (2) Material used on and moved from the Joint Property

49
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was
51 originally charged to the Joint Account as new Material or

52
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was
54 originally charged to the Joint Account as used Material

55
56 (3) Material not used on and moved from the Joint Property

57
58 At seventy-five percent (75%) of current new price as determined by Paragraph A

59
60 The cost of reconditioning, if any, shall be absorbed by the transferring property

61
62 C Other Used Material

63
64 (1) Condition C

65
66 Material which is not in sound and serviceable condition and not suitable for its original function until
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by
68 Paragraph A The cost of reconditioning shall be charged to the receiving property, provided Condition
69 C value plus cost of reconditioning does not exceed Condition B value

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(2) Condition D

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

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

1 overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

2
3 3. **Special inventories**

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

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12 A The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the
13 Parties
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15 B The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except
16 inventories required due to change of Operator shall be charged to the Joint Account.
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EXHIBIT "D"

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Attached to and made a part of that certain Operating Agreement dated effective March 1, 2004 by and between WestStar Exploration Company, as Operator and The Houston Exploration Company, as Non Operator.

INSURANCE PROVISIONS

At all times while operations are conducted under this Agreement, Operator shall maintain for the benefit of all parties hereto, insurance of the types and in the maximum amounts as provided below. Premiums for such insurance shall be charged to the Joint Account, if such Non-Operator requests coverage. Operator shall attempt to require all sub-contractors to maintain and provide for the benefit of all parties hereto, insurance and if so required Operator agrees to have sub-contractors furnish Certificates of Insurance evidencing such insurance coverage.

Non-Operating working interest owners shall be named as Additional Insureds on the liability insurance policies, but only with respect to the performance of all work hereunder, and only if Non-Operator requests to be covered by Operator's policy.

All such insurance shall be carried by an acceptable company or companies; shall be maintained in full force and effect during the term of this Agreement; and shall not be cancelled, altered or amended without 30 days prior written notice. If so required, Operator agrees to have its insurance carrier furnish Certificates of Insurance evidencing such insurance coverage's.

Operator and Non-Operating working interest owners agree to mutually waive subrogation in favor of each other on all insurance carried by each party and/or to obtain such waiver from the insurance carrier if so required by the insurance contract.

If Non-Operator(s) agree to be covered under Operator's insurance, Non-Operating working interest owners agree that the limits and coverage carried by Operator for the joint account are adequate, and except for claims based on gross negligence or willful misconduct of the Operator, the Non-Operating working interest owners shall bear their prorata share of any claim which exceeds such limit or is not covered by such policy. Such coverage's and limits may change or be unavailable from time to time and Operator does not guarantee their continuance but will use its best efforts to provide coverage's and limits at reasonable costs.

- A. Worker's Compensation Insurance in full compliance with all applicable state and federal laws and regulations.
- B. Employer's Liability Insurance in the limits of \$1,000,000 per accident covering injury or death to any employee who may be outside the scope of the Workers' Compensation statute of the state in which the work is performed.
- C. Comprehensive General Liability Insurance with Limits per occurrence of \$1,000,000 Combined Single Limit for Bodily Injury and Property Damage, including Property Damage by Blowout and Cratering, Completed Operations, and Broad Form Contractual Liability as respects any contract into which the Operator may enter under the terms of this Agreement.
- D. Automobile Liability Insurance covering owned, non-owned and hired automotive equipment with limits of \$1,000,000.
- E. Umbrella Liability with limit of \$5,000,000 per occurrence combined single limit.
- F. Operator shall carry Operators Extra Expense insurance covering the costs of controlling a Blowout, the expenses involved in redrilling the well, certain other related costs and Seepage and Pollution Liability. (These are descriptive terms only and exact coverage can be found only in the policy). The limit for this insurance is \$10,000,000 per occurrence. Non-Operating working interest owners not wishing to be covered under this

policy must notify Operator prior to spud date, and by such refusal of coverage each Non-Operating working interest owner agrees to be responsible for his proportionate share of such loss, anything in the Agreement to the contrary notwithstanding.

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- G. Operator shall notify in advance the Non-Operators of any other coverage for the joint account that Operator may deem reasonable and necessary in connection with the conduct of operations hereunder.

Notwithstanding anything contained herein to the contrary, each Non-Operating working interest owner shall, at its option, provide the Operator with a Certificate of Insurance showing that the party maintains insurance independently covering the risks set forth in subparagraph C, D, E and F with limits of coverage at least equal to those specified. Alternatively, any Non-Operating working interest owner shall provide Operator with evidence of self-insurance acceptable to Operator with respect to such risk. Any party providing evidence of such coverage or self insurance shall not be a named insured under policies maintained by Operator and shall not be charged with premiums charged to the joint account for coverage specified by subparagraphs C, D, E and F above, and Operator may to the extent it deems appropriate reduce the limits of coverage specified above.

EXHIBIT "E"
GAS BALANCING AGREEMENT

Attached to and made a part of that certain Operating Agreement dated effective March 1, 2004
by and between WestStar Exploration Company, as Operator and
The Houston Exploration Company, as Non Operator.

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I Definitions

- A. "Affiliate" is any company that is controlled or wholly owned by another company. Spouses and the minor children of any parent shall also be deemed to be an affiliate for purposes of this Agreement.
- B. "Alternate Price" is the price which shall apply for purposes of Article IV or Article V whenever a party has taken Gas for his account, but not immediately sold the Gas or where a party hereto has sold his Gas to an Affiliate. Any Gas so taken or sold shall be valued at the monthly spot market price listed for the geographical area where the well is located as published by Inside FERC's Gas Market Report unless a party can show its valuation or affiliate sales price is representative of other arms' length transactions available in the area at the same time for gas of comparable quality. If a range of prices is published for the geographical area in question, then the value of the Gas shall be calculated by averaging the different prices listed for that geographical area. The Alternate Price shall be adjusted to reflect actual gathering, treating, transportation or other gas handling costs incurred by parties selling gas from the well. If Inside FERC's Gas Market Report ceases to list monthly spot market prices for the geographical area in question, then a similar publication shall be substituted by mutual consent of the parties.
- C. "Balanced" is that condition which occurs when a party hereto has taken the same percentage of the cumulative volume of Gas production it is entitled to take pursuant to the terms of the Operating Agreement or when an Underproduced party hereto has had its Gas account balanced by one or more Overproduced parties hereto pursuant to the provisions of Article IV or Article V(C) of this Agreement.
- D. "Btu" means the amount of heat required to raise the temperature of one pound of water from fifty-eight and five-tenths degrees Fahrenheit (58.5°) to fifty-nine and five-tenths degrees Fahrenheit (59.5°) at a pressure of fourteen and sixty-five one hundredths (14.65) pounds per square inch absolute and dry.
- E. "Gas" includes casinghead Gas (which is all Gas produced with crude oil) and natural Gas from Gas wells, but shall not include liquid hydrocarbons recovered by primary separation equipment.
- F. "Overproduced" is the status of a party when the percentage of the cumulative volume of Gas taken by that party exceeds that party's percentage interest of the volume of cumulative Gas production of all parties to the Operating Agreement pursuant to the terms of said agreement.
- G. "Permanent Cessation of Gas Production" is that point in time when the Well is no longer economical to operate and a proposal has been made by a working interest owner to plug and abandon the Well.
- H. "Royalty Owner" shall include all owners of royalty, overriding royalties, production payments, and similar interest payable out of production.
- I. "Underproduced" is the status of a party when the percentage of cumulative volume of Gas taken by that party is less than that party's percentage interest of the volume of cumulative Gas production of all parties to the Operating Agreement pursuant to the terms of said agreement.
- J. "Well" is defined as each well subject to the Operating Agreement that produces Gas. If a single Well is completed in two or more reservoirs, such Well shall be considered a separate Well with respect to, but only with respect to, each reservoir from which the Gas produced is not commingled in the wellbore.

II Application of this Agreement

The parties to the Operating Agreement to which this Agreement is attached own the Gas underlying the Contract Area as such term is defined in the Operating Agreement and are entitled to share in the production as stated therein. In accordance with the terms of the Operating Agreement, each party shall have the right to take in kind or separately dispose of its proportionate share of Gas produced from the Contract Area. Whenever parties to the Operating Agreement to which this Agreement is attached are in an Overproduced or Underproduced status with regard to Gas production, then this Agreement shall automatically become effective.

The Operator of the Contract Area shall administer the provisions of this Agreement. To the extent practicable, the operator shall cause deliveries to be made at such rates as may be required to give effect to the intent that the Gas production accounts of all parties are to be or become Balanced. In so doing, the Operator shall not incur any liability to any non-operator.

The provisions of this Agreement shall be applied to each Well separately as if each Well was covered by separate but identical agreements.

III. Storing and Making Up Gas Production

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A. Right to Take and Market Gas

During any period or periods when any party hereto does not take, has no market for, or the market of a party is not sufficient to take that party's full share of the Gas produced from any Well located within the Contract Area, or such party's purchaser otherwise fails to take such party's share of Gas produced from any Well located within the Contract Area, the other party or parties shall be entitled, but not required, to produce from said Well(s) and take or deliver to their respective purchase(s) each month the remaining available Gas. Irrespective of the other provisions hereof, no Overproduced party may, without the express written approval of at least fifty-one percent (51%) of the working interest ownership of all Parties hereto, after first deducting the working interest percentage of the Overproduced party who anticipates taking more than three hundred percent (300%) of its proportionate share of the Gas, take or market Gas in quantities in excess of three hundred percent (300%) of such Overproduced party's proportionate share of the Gas (or, if applicable, the allowable assigned by the regulatory body having jurisdiction over each such Well) or three hundred percent (300%) of such party's proportionate share of the then current deliverability of the Well, including associated pipeline pressure, whichever is the lesser quantity of Gas.

Whenever more than one party wishes to take and/or market the share of Gas owned by another party that is not taking or selling its proportionate share, then, in the absence of any other agreement between them, those parties wishing to take and/or market the Gas shall only be entitled to take such additional amount that is in direct proportion to what their percentage interest bears to the total interest of all parties desiring to take the additional Gas.

All parties hereto shall share in and own the liquid hydrocarbons recovered from such Gas by primary separation equipment in accordance with their respective interests and subject to the terms of the above described Operating Agreement, whether or not such parties are actually taking and/or marketing Gas at such time.

B. Making Up Underproduction

Each Underproduced Party shall be credited with Gas in storage equal to its percentage share of the total volume of Gas produced under this Agreement, less that portion of the Gas actually marketed or taken by such party and less that portion of Gas used in operations, vented, or lost.

Any Underproduced party shall endeavor to bring its taking of Gas into a Balanced condition. After advance written notice to the Operator, any Underproduced party may thereafter, consistent with Operator's nomination procedure, begin taking or delivering to its purchaser its full share of the Gas produced from a Well (less any Gas used in operations, vented, or lost). If the Operator has no nomination procedure in place, then the Underproduced party shall give at least thirty (30) days written notice to the Operator prior to taking Gas. An Underproduced party shall be entitled to take or deliver to a purchaser its full share of Gas produced from such Well (less any used in operations, vented, or lost) plus, (i) for the months of March, April, May, June, July, August, September and October only of any calendar year or years during which this Agreement is in effect, an amount up to an additional fifty percent (50%) of the monthly quantity of Gas attributable to the Overproduced party or parties, or (ii) for the months of November, December, January and February only of any calendar year or years during which this Agreement may be in place, an amount up to an additional twenty percent (20%) of the monthly quantity of Gas attributable to the Overproduced party or parties. If more than one Underproduced party is entitled and desires to take additional Gas, they shall divide the additional Gas in direct proportion to what each such party's percentage interest bears to the total percentage interest of all Underproduced parties desiring to take the additional Gas. The first Gas made up in any Balancing of the accounts shall be considered to be the first Gas Underproduced.

C. Filing Monthly Statement of Gas Volumes Taken With Operator

Within ninety (90) days after the end of each calendar month, each party hereto shall supply a written statement of the volume and the Btu content of the Gas it took from each Well within the Contract Area on a reservoir by reservoir basis and the identity of its Gas purchaser, if any, to the Operator at the following address:

Weststar Exploration Company
811 Rusk, Suite 710
Houston, Texas 77002
Attention: Land Department

The above address may be changed from time to time and notice of such change of address shall be deemed to be received when sent by certified mail to each working interest owner's last known mailing address. The Operator will maintain appropriate accounting on a monthly and cumulative basis of the quantities of Gas each party is entitled to take and/or market and the quantities of Gas actually taken and/or marketed by each of the parties. With respect to Gas purchased from or transported for more than one party by or through any pipeline connected to the Well, each party selling to or transporting through such pipeline shall furnish to Operator or cause the pipeline owner to furnish to Operator monthly volume statements showing the split of ownership through such pipeline's sales or pipeline inlet meter for each calendar month. Within one hundred twenty (120)

days after the end of each calendar month, the Operator shall furnish each party with a statement showing the then current status of the Overproduced and Underproduced accounts of all parties.

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Any party to the Operating Agreement to which this Agreement is attached that does not provide the Operator with the Monthly statement of volume and the Btu content of the Gas taken as provided for herein, shall not have the right to balance its account pursuant to the provisions of periodic cash balancing found in Article IV of this Agreement.

Similarly, if any party hereto has taken greater than one hundred twenty-five percent (125%) of its proportionate share of Gas, calculated on a cumulative basis using the last available gas balancing statement, and has not provided the Operator with the monthly statement of the volume and the Btu content of the Gas taken within ninety (90) days after each production month as provided for herein, then the Operator shall inform the Overproduced party it must provide the requisite statement within the ensuing thirty (30) day period or face immediate interruption of its Gas takes. If the Overproduced party does not provide the required information within the thirty (30) day period, the Operator shall inform the Overproduced party it has breached the terms of this Agreement and may not sell or take any Gas whatsoever for a period of six (6) consecutive months following receipt of notice from Operator, sent by certified mail, that said Overproduced party no longer has the right to sell Gas from said Well. The terms of this paragraph may be imposed by the Operator as often as is necessary to assure compliance with this provision.

To determine respective volumes of Gas taken by separate Gas pipelines connected to the Well, measurement of Gas for overproduction and underproduction shall be accomplished by use of sales meters and lease measurement equipment which shall be in accordance with American Gas Association requirements.

Each party to this Agreement agrees that it will not utilize any information obtained hereunder for any purpose other than implementing or administering the terms of this Agreement.

D. Royalty and Production Tax

At all times while Gas is produced from the Contract Area, unless otherwise required by any State or Federal law or regulations, each party shall pay, or cause to be paid, all royalty due and payable on its share of Gas production. Each party agrees to hold each other party harmless from any and all claims for royalty payments asserted by its royalty owners.

Each party taking Gas off the lease or delivering Gas to its Gas purchaser shall pay, or cause to be paid, all production and severance taxes due on all volumes of Gas actually taken or sold by such party.

IV. Final Cash Balancing

A. Volume/Value

If, at the Permanent Cessation of Gas Production from a Well located within the Contract Area or at any point in time when there is a change in ownership as described in Article V(C) below, an imbalance exists between the parties, then a cash settlement of the imbalance between the parties shall be made relative to each such Well.

B. Distribution of Final Gas Balancing Statement and Settlement of Cash Imbalance

Within one hundred twenty (120) days after Permanent Cessation of Gas Production, the Operator shall provide a final accounting of the Gas balance to all parties hereto. As part of the final accounting process, the Operator shall calculate the amount of Gas (based on volume and Btu content, but not on price, and calculated on a monthly basis) that each Overproduced party owes to each Underproduced party. If there is more than one Underproduced party, then the total volume of Gas overproduced shall be divided among all of the Underproduced parties in proportion to their percentage interest in said Gas and each Overproduced party shall calculate its cash payment to each Underproduced party based on either: 1.) the volume of Gas remaining in the Overproduced party's Gas the actual proceeds received by the Overproduced party or parties. Where applicable, the value of the Gas Overproduced shall be based on the Alternate Price established pursuant to Article 1(B) above. Each Overproduced party shall make settlement, directly to each Underproduced party.

Each Overproduced party shall cash settle with each Underproduced party within thirty (30) days after receipt from the Operator of the statement showing the Overproduced party's volumetric and Btu content overproduction in the Well. Payments made by an Overproduced party to an Underproduced party shall relieve the Overproduced party of liability to any other party for the sums actually paid. Operator shall not be liable to any party for the failure of any Overproduced party to pay any amounts owed pursuant to the terms hereof.

C. Ownership Changes

In the event an Overproduced party intends to sell, assign, exchange or otherwise transfer any of its interest in a Well located within the Contract Area, such Overproduced party shall notify in writing, sent by certified mail, the other working interest owners in such Well of such fact within forty-five (45) days prior to closing the transaction. Within twenty (20) days after receipt of the Overproduced party's notice of its intent to sell, assign, exchange or otherwise transfer its interest in a Well, any

Underproduced party may make a written demand upon the Overproduced party in question for cash settlement of the full amount of the Underproduced party's share of the total Underproduction in the

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Well. If more than one Underproduced party wishes to cash balance its Gas account, then each Underproduced party shall have the right to receive cash settlement of its proportionate share of the total Gas volume Underproduced by only those Underproduced parties seeking a cash settlement until the Gas accounts of all Underproduced parties in question are Balanced or the amount of the Overproduced party's imbalance is exhausted, whichever occurs first. The Operator shall be notified of any such demand for cash settlement pursuant to this Article V(C), and after a cash settlement has been made, the Gas balance accounts of the parties shall be adjusted accordingly. Any cash settlement pursuant to this Article V(C) shall be on the same basis as otherwise set forth in Article V(A) and Article V(E) hereof.

The provisions of this Article V(C) shall not be applicable in the event an Overproduced party has mortgaged its interest, or disposed of its interest by merger, reorganization, consolidation, or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary owns a majority of the stock of such company.

V. Deductions From Cash Settlement

When preparing a cash settlement with any Underproduced party hereto, the Overproduced party shall be entitled to deduct actual costs incurred for the following items, 1.) gathering and transportation charges, compression, dehydration and any applicable treating charges, production and severance taxes paid by, or on behalf of, such Overproduced party. Royalty payments shall be deducted from such proceeds attributable to the overproduction only if actually paid to royalty owners by, or on behalf of, an Overproduced party, and then only to the extent the amount of royalty paid is not in excess of the royalty owners' entitled share of royalty.

VI. Miscellaneous

A. Term

This Agreement shall remain in effect until the Gas balance accounts between the parties are settled in full, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

B. Expenses

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on the Contract Area as determined by the Operating Agreement to which this Agreement is attached.

C. Interest

No interest shall be payable in any cash settlement made pursuant to the provisions of this Agreement except in the event an Overproduced party fails to remit payment to an Underproduced party within sixty (60) days after the Operator has mailed notice to an Overproduced party that an Underproduced party wishes to cash balance pursuant to the provisions of, Article V(B) or Article V(C). If payment is not made to the Underproduced party within said sixty (60) day period, interest shall accrue on the unpaid balance at a rate of two percent (2%) above the prime rate at NationsBank of Texas, N.A. from a date commencing sixty (60) days after the Operator has mailed notice to the Overproduced party until payment has been made to the Underproduced party.

D. Audits

Notwithstanding any provision to the contrary found in the Operating Agreement or any other exhibit attached to the Operating Agreement, any party hereto shall have the right to audit the records related to Gas sales, including Btu adjustments, and production for the following length of time:

- (1) For any cash payments made pursuant to the provisions of the final cash balancing found in Article V of this Agreement, each party hereto shall have the right for a period of two (2) years following the final cash settlement, to audit the records of any other party.

Each party hereto agrees to retain information on the volume of Gas taken each month, the Btu content of such Gas, and the price per MCF it received for such Gas from each Well located within the Contract Area for so long as each such Well produces Gas and for an additional two (2) years thereafter.

E. Well Tests

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its Gas purchaser up to 100% of the entire Well stream to meet the deliverability test required by its Gas purchaser, provided that such tests are reasonable in light of overall industry standards.

F. Monitoring of Takeoff of Production

Each party shall, at all times, use its best efforts to regulate its takes and deliveries from each Well within said Contract Area so that, where applicable, no Well will be shut-in for overproducing the allowable assigned thereto by the regulatory body having jurisdiction. Additionally, each party shall communicate, as necessary, the contents of this Agreement to its respective Gas purchaser(s) or transporter(s) and shall monitor its deliveries to its respective Gas purchaser(s) or transporter(s) so as to ensure to the greatest extent practicable that its Gas purchaser(s) or transporter(s) does not take Gas in excess of the quantities provided for herein.

G. Monies Subject to Refund

In any cash settlement made pursuant to the terms of this Agreement, that portion of the monies collected by an Overproduced party which is subject to refund by order of the Federal Energy Regulatory Commission ("FERC") or any other governmental authority may be withheld by an Overproduced party until such prices are fully approved by the governmental agency in question, unless an Underproduced party furnishes a corporate undertaking acceptable to the Overproduced party or parties agreeing to hold the Overproduced party or parties harmless from financial loss due to pending refund. If any refund is required by any governmental authority after a cash settlement has been made pursuant to the terms of this Agreement, each party hereto agrees to account for its respective share of such refund.

H. Sales to an Affiliate, Valuation of Stored Gas or Gas Used Off Lease

If an Overproduced party has sold Gas to an Affiliate, stored Gas or used Gas off lease, then for the purposes of Article IV and Article V of this Agreement, any Gas so sold, stored or used off lease shall be valued at the Alternate Price as such term is defined in Article 1(B) of this Agreement.

I. Attorney Fees and Court Costs

The prevailing party in any lawsuit brought to enforce any provision of this Agreement shall be entitled to receive reimbursement for all court costs and reasonable attorney fees incurred in connection with said lawsuit.

J. Overproduced Party Shall Notify Operator that Payment Has Been Made

Within thirty (30) days after an Overproduced party has paid an Underproduced party for all or a portion of the value of the Overproduced party's overproduction pursuant to the provision of Article IV or Article V(C) of this Agreement, the Overproduced party shall notify the Operator in writing of the volume of Gas (expressed in MCF and the corresponding Btu content) covered by the payment and the party to whom such payment was made so the Operator may maintain a current and accurate gas balancing statement for all parties.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated effective March 1, 2004
by and between WestStar Exploration Company, as Operator and
The Houston Exploration Company, as Non Operator.

NON-DISCRIMINATION AND CERTIFICATION OF NON-SEGREGATED FACILITIES

Definition: The word "Contractor" wherever used below shall mean "Operator" when this exhibit form is attached to an Operating Agreement and shall mean "Farmee" when attached to a Farmout Agreement.

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

1. The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion or transfer, or recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.
2. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
3. The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representatives of the Contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
4. The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor.
5. The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
6. In the event of Contractor's non-compliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rules, regulations or orders of the Secretary of Labor, or as otherwise provided by law.
7. The Contractor will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of the Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event the Contract becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interest of the United States.

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

The Contractor, unless exempt, agrees to file with the appropriate federal agency a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after the signing of this agreement or the award of any such purchase order, as the case may be, (unless such a report has been filed in the last 12 months), and agrees to continue to file such reports annually, on or before March 31st. (41 CFR 60-1.7(a))

C. AFFIRMATIVE ACTION COMPLIANCE PROGRAM

The Contractor agrees to develop and maintain a current written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order 11246, as amended. (41 CFR 60-1.40)

D. VETERAN'S EMPLOYMENT

In the event the agreement to which this exhibit is attached is for the purpose of carrying out a contract with any department or agency of the United States for the procurement of personal property and non-personal services (including construction) for the United States as provided by Section 2012 of Title 38 USC, Contractor agrees to give special emphasis to the employment of qualified disabled veterans and veterans of the Vietnam era and to list immediately with the appropriate local employment service office all of its suitable employment openings.

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E. EQUAL OPPORTUNITY IN EMPLOYMENT CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor, by entering into the contract to which this Exhibit "F" is attached, certifies that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, sex or national origin, because of habit, local custom, or otherwise. He further agrees that (except where he has obtained identical certifications from proposed subcontractors for specific time periods) he will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity clause; that he will retain such certifications in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENTS FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES: A Certification of Nonsegregated Facilities, as required by the May 9, 1967, Order (32 F. R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a subcontract exceeding \$10,000.00 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually, or annually).

EXHIBIT "G"

Attached to and made a part of that certain Operating Agreement dated effective March 1, 2004 by and between WestStar Exploration Company, as Operator and The Houston Exploration Company, as Non Operator.

THERE IS NO EXHIBIT "G"

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

This Memorandum of Operating Agreement and Financing Statement entered into by and between the undersigned parties, witnesseth, that:

- 1.0 This Memorandum of Understanding and Operating Agreement and Financing Statement (hereinafter called "**Memorandum**") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, March 1, 2004.
- 2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from from the lands set forth by the bold line on the plat attached hereto as **Exhibit "A"** (hereinafter called the "**Contract Area**"), and designating, WestStar Exploration Company, as Operator to conduct such operations.
- 3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.
- 4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.
- 5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:
 - 5.1 The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within limits of the Operating Agreement.
 - 5.2 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.
 - 5.3 Each Non-Operator grants to Operator a lien upon its right, title and interest in and to the property described in Paragraph 6.2 below, including without limitation, its right, title and interest in and to oil and gas rights in the Contract Area, and a security interest in its right, title and interest in and to the property described in Paragraph 6.1 below, including without limitation its right, title and interest in and to its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expenses and other obligations as set forth in the Operating Agreement, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an

election of remedies or otherwise affecting the rights or security interest of the payment thereof.

- 5.4 If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.
- 5.5 The Operator grants to Non Operator a lien upon its right, title and interest in and to the property described in Paragraph 6.2 below, including without limitation to right, title and interest in and to oil and gas rights in the Contract Area, and a security interest in its right, title and interest in and to the property described in Paragraph 6.1 below, including without limitation its right, title and interest in and to its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expenses and other obligations as set forth in the Operating Agreement, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Non Operator has a security interest under the Uniform Commercial Code of the state, Non Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Non Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affecting the rights or security interest of the payment thereof.
- 6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtors(s) in:
 - 6.1 Property Subject to Security Interests
 - (A) All personal movable property located upon or used in connection with the Contract Area.
 - (B) All fixtures on the Contract Area.
 - (C) All oil, gas and associated substances of value in, on or under the Contract Area, which may be extracted therefrom.
 - (D) All accounts arising out of the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.
 - (E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).
 - (F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and/or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.
 - (G) All severed and extracted oil, gas and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.
 - (H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefore, replacements thereof, or accessions thereto.
 - (I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 Property Subject to Liens

- (A) All real immovable property within the Contract Area, including all mineral rights or interests in oil and gas in, on or under the Contract Area and all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.
- (B) All fixtures within the Contract Area.
- (C) All real immovable property and fixtures now or hereafter acquired in furtherance of the purposes of this Operating Agreement.

- 7.0 This Memorandum is to be filed for record in the public records of the County in which the Contract Area is located, and in the Uniform Commercial Code records.
- 8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell an interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.
- 9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.
- 10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.
- 11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.
- 12.0 A party having an interest in the Contract Area can ratify this memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.
- 13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.
- 14.0 As reflected above, either or both Operator and Non-Operator(s) may become Debtors if they default in their payment obligations under the terms of the Operating Agreement. Similarly, the non-defaulting party(ies) will be considered secured party(ies).
- 15.0 The parties hereto agree to execute, acknowledge and deliver or cause to be executed, acknowledged and delivered any instrument, or take any action necessary or appropriate to effectuate the terms of the Operating Agreement or any Exhibit, instrument, certificate or other document pursuant thereto.

OPERATOR:

000051

WESTSTAR EXPLORATION COMPANY

Bt: _____
William C. Gilmore
President

NON-OPERATOR:

THE HOUSTON EXPLORATION COMPANY

By: _____
Tracy Price
Sr. Vice President - Land

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

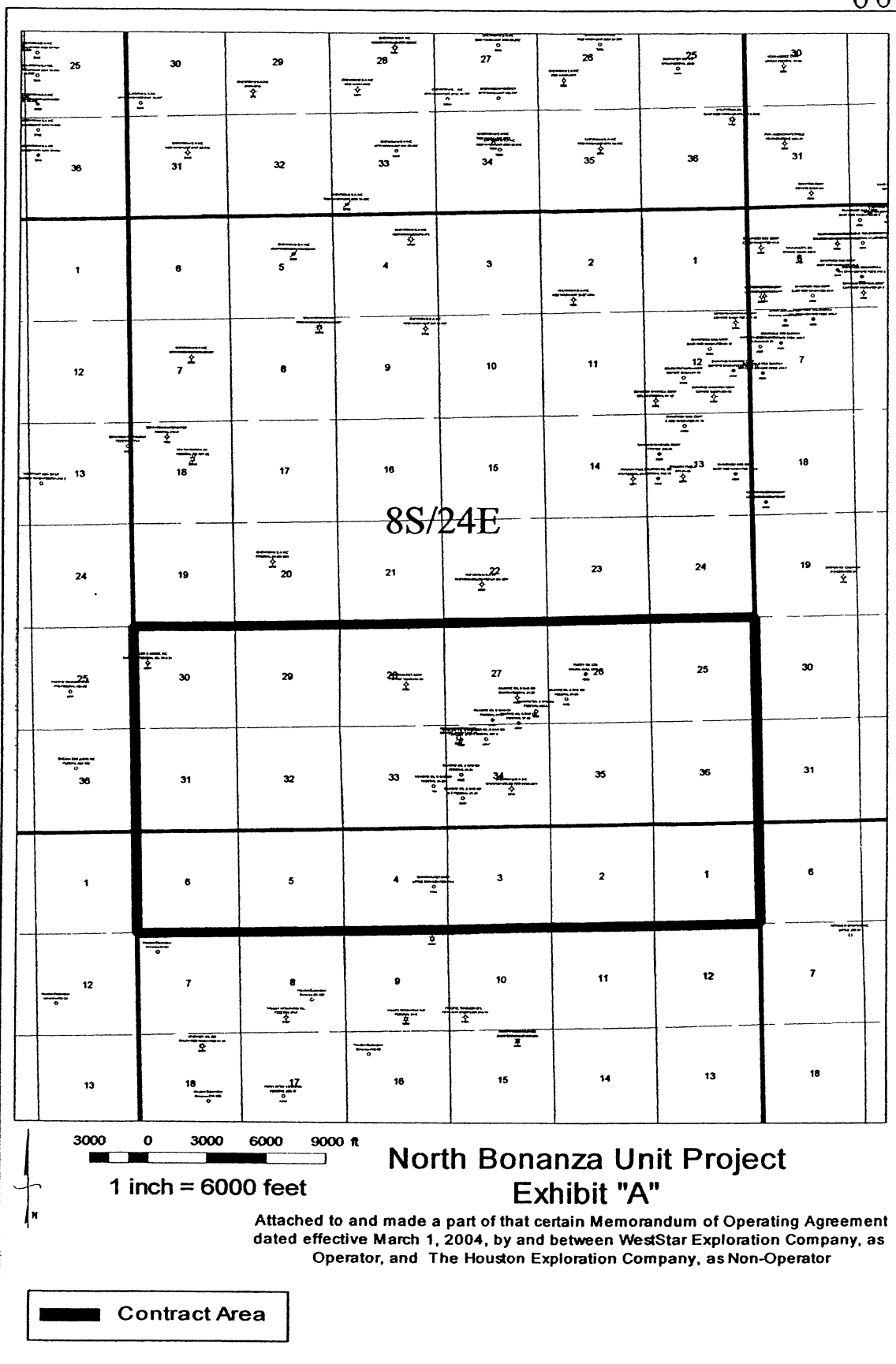
On this _____ day of March, 2004 before me appeared William C. Gilmore, to me personally known, who, being by me duly sworn (or affirmed) did say that he is President of WestStar Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that William C. Gilmore acknowledged the instrument to be the free act and deed of the corporation.

[SEAL] _____
Notary Public in and for the State of Texas

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

On this _____ day of March, 2004 before me appeared Tracy Price, to me personally known, who, being by me duly sworn (or affirmed) did say that he is Senior Vice President - Land of The Houston Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that Tracy Price, acknowledged the instrument to be the free act and deed of the corporation.

[SEAL] _____
Notary Public in and for the State of Texas



**Attached to and made a part of that certain Participation Agreement
dated effective March 1, 2004 by and between
The Houston Exploration Company and WestStar Exploration Company**

Area of Mutual Interest

EXHIBIT "D"
Attached to and made a part of
Participation Agreement dated effective
March 1, 2004 by and between
The Houston Exploration Company and
WestStar Exploration Company

000054

Authority for Expenditure

Prepared By: WCG		Date: March-04	
Prospect/Field N. Bonanza	Operator WestStar Exploration	Lease Name Q-T Federal 34	Well No. 1
			Property No. U - 58726
County Uintah	State UT	Proposed T.D. 8,350'	Formation Was/Mesa
			Location Description NWSW, Section 34, T8S - R24E
Drill/Complete (X)	Workover ()	Re-Entry ()	Deepen (X)
Re-Complete ()	Exploratory (X)	Development ()	Other ()
Purpose of Expenditure: Deepen thru the existing 5 1/2" Casing and Test Wasatch and Mesaverde Formations			

	Intangible Expense	Casing Point Cost	Completion Cost	Completed Well
	Location, roads, mobilization, damages	3,500	0	3,500
	24 Hour Rig 15 days at 10,500/day	157,500	0	157,500
	Fuel, Water, Mud	6,500	0	6,500
	Bits & Rental Equipment	22,500	0	22,500
	Downhole Mud Motor and tools	19,500	0	19,500
	Legal Fees & Abstracts	0	0	0
	Location Restoration	0	0	0
	Cement, Tools & Services Squeeze jobs	0	0	0
BCP	Open Hole Logs & Surveys	0	0	0
	DST, Coring, Analysis	0	0	0
	Mud Logging & Geologist	2,000	0	2,000
	Transportation, Insurance & Bonds	2,500	0	2,500
	Administrative Overhead	2,000	0	2,000
	Supervision	7,500	0	7,500
	Misc. & Contingency	0	0	0
	Cement, Tools & Services	0	4,500	4,500
	Completion Unit	0	0	0
	Cased Hole Logs, Perforating	0	3,000	3,000
ACP	Stimulation & Testing	0	7,500	7,500
	Transportation & Rental Equipment	0	0	0
	Supervision	0	2,000	2,000
	Misc. & Contingency	0	0	0
	Total Intangible Expense	223,500	17,000	240,500

Tangible Expense							
Wellhead					0	0	0
Tubulars:					0	0	0
Feet	O.D.	Weight	Grade	Thread	0	0	0
4,000'	2 7/8	6.5 lb/ft	J-55	EUE 8 Round	0	8,000	8,000
					0	0	0
					0	0	0
					0	0	0
Wellhead, Tree					0	5,000	5,000
Packers, Anchors, Pump					0	1,500	1,500
Pumping Unit & Motor					0	0	0
Tanks, Treater, Separator					0	3,000	3,000
Line Pipe & Connections					0	1,000	1,000
Misc. & Contingency					0	0	0
Total Tangible Expense					0	18,500	18,500
Total Well Cost					223,500	35,500	259,000
Your Amount					111,750	17,750	129,500

Your BCP % - 50.00	Your ACP % - 50.00	Owner: The Houston Exploration Company	Title: X
Approved By: X	Date: X	Print Name: X	

APPROVAL OF THIS AFE INCLUDES AGREEMENT TO PAY YOUR SHARE OF THE ACTUAL COST OF THE WORK TO BE DONE, EVEN
THOUGH THE PRICE MAY VARY FROM THE ESTIMATED COST.

000055

EXHIBIT "E"

Attached to a made a part of that certain Participation Agreement dated effective March 1, 2004 by and between
The Houston Exploration Company and WestStar Exploration Company

WESTSTAR LEASES										
LSE NO.	LSE DATE EXP DATE	LESSOR NAME	LESSEE NAME	LEGAL DESCRIPTION	GROSS ACRES	NET ACRES	ROYALTY BURDEN	ORRI BURDENS	COUNTY	STATE
U-52765	May 1, 1983 HBP	United States of America, Utah State BLM Office	Davis Oil Company	<u>Township 8 South, Range 24 East, SLM</u> Section 26 E/2, NW/4, NW/4SW/4 Section 27 NE/4SE/4, S/2SE/4	640.00	640.00	Sliding Scale	7.80088%	Uintah	Utah
U-52767	May 1, 1983 HBP	United States of America, Utah State BLM Office	Peter I. Wold	<u>Township 8 South, Range 24 East, SLM</u> Section 34 NW/4	160.00	160.00	Sliding Scale	From Base of Green River Formation to 6,433' - 6.35% All other depths - 7.00%	Uintah	Utah
U-54928	October 1, 1984 HBP	United States of America, Utah State BLM Office	George Vrame	<u>Township 8 South, Range 24 East, SLM</u> Section 27 S/2SW/4 Section 28 SE/4SE/4 Section 33 E/2NE/4	200.00	200.00	Sliding Scale	From Base of Green River Formation to 6,433' - 65% All other depths - 7.00%	Uintah	Utah
U-58725	March 1, 1986 HBP	United States of America, Utah State BLM Office	Exxon Corporation	<u>Township 8 South, Range 24 East, SLM</u> Section 33 W/2NE/4, NW/4, N/2SW/4, SE/4	480.00	480.00	Sliding Scale	5.00%	Uintah	Utah
U-58726	March 1, 1986 HBP	United States of America, Utah State BLM Office	Corbin J. Robinson	<u>Township 8 South, Range 24 East, SLM</u> Tract 1 Section 34 NW/4SW/4 Tract 2 Section 34 NE/4SW/4, S/2SW/4, SE/4 Section 35 S/2	40.00 600.00	40.0 600.00	Sliding Scale Sliding Scale	7.50% 1.00%	Uintah	Utah
TOTAL					2,120.00	2,120.00				

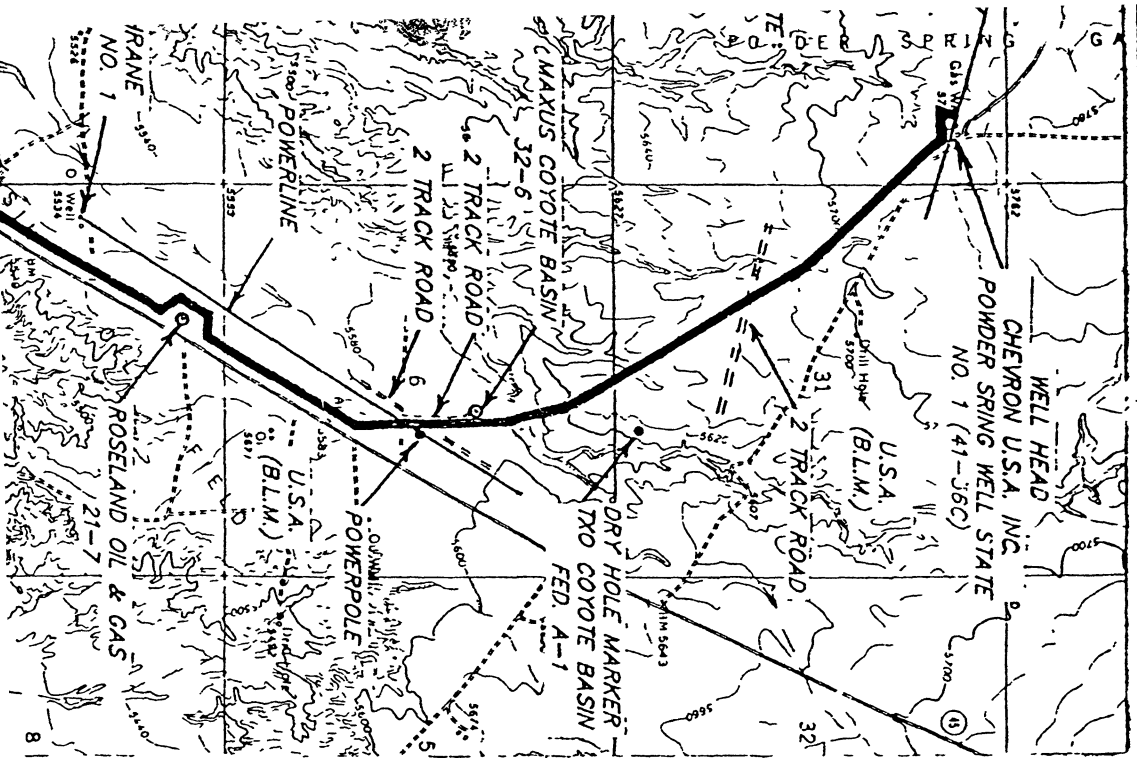
000056

EXHIBIT "E-1"

Attached to a made a part of that certain Participation Agreement dated effective March 1, 2004 by and between
The Houston Exploration Company and WestStar Exploration Company

CONTINGENT LEASES									
LSE NO	LSE DATE EXP DATE	LESSOR NAME	LESSEE NAME	LEGAL DESCRIPTION	GROSS ACRES	NET ACRES	ROYALTY BURDEN	ORRI BURDENS	COUNTY STATE
U-41813	January 1, 1979 HBP	United States of America, Utah State BLM Office	A T Moll	<u>Township 8 South, Range 24 East, SLM</u> Section 26 NE/4SW/4, S/2SW/4	120 00	120 00	12 50%	5 00%	Uintah Utah
U-73025	April 1, 1994 March 31, 2004	United States of America Utah State BLM Office	Equitable Resources Energy Company	<u>Township 8 South, Range 24 East, SLM</u> Section 25 W/2 Section 31 Lots 3, 4, E/2SW/4, SE/4 Section 34 NE/4 Section 35 N/2	1,115 38	1,115 38	12 50%	5 00%	Uintah Utah
TOTAL					1,235 38	1,235 38			

000057



BONANZA GAS COMPANY, INC.

PROPOSED

PIPELINE RIGHT-OF-WAY ON UTAH STATE LANDS AND B.L.M. LANDS

LOCATED IN

SECTION 36, T7S, R24E, S.L.B.&M.
SECTION 31, T7S, R25E, S.L.B.&M.
SECTIONS 6, & 7, T8S, R25E, S.L.B.&M.
SECTIONS 12, 13, 23, 24, 26, & 27,
T8S, R24E, S.L.B.&M.

UINTAH COUNTY, UTAH

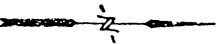


EXHIBIT "F"
Attached to and made a part of
Participation Agreement dated effective
March 1, 2004 by and between
The Houston Exploration Company and
WestStar Exploration Company

EXHIBIT "G"
EXCLUDED WELLBORES, FACILITIES, AGREEMENTS

000058

Attached to and made a part of that certain Participation Agreement
dated effective March 1, 2004, by and between The Houston Exploration Company
and WestStar Exploration Company

Well Information

(All Wells located in T8S – R24E, Uintah County, Utah)

<u>Well Name</u>	<u>Well #</u>	<u>Location</u>	<u>BLM Lease No.</u>	<u>API Number</u>
Federal 27	1	SESW, Sec 27	UTU-54928	43-047-3184700S1
Federal 27	2	SWSE, Sec. 27	UTU-52765	43-047-3187700S1
Federal 27	3	SESE, Sec. 27	UTU-52765	43-047-3189000S1
Federal 26	1	NWSW, Sec. 26	UTU-52765	43-047-3190500S1
Raging Bull	1	NESW, Sec. 26	UTU-41813	43-047-3134400S1
Federal 34	1	NWNW, Sec. 34	UTU-52767	43-047-3186200S1
Federal 34	2	NENW, Sec. 34	UTU-52767	43-047-3189100S1
Federal 34	3	SWNW, Sec. 34	UTU-52767	43-047-3190900S1
Federal 33	1	NESE, Sec. 33	UTU-58725	43-047-3190400S1

9. Assignor specifically excludes from this Partial Assignment of Oil and Gas Leases all of Assignors right title and interest in the Oil and Gas Leases insofar and only insofar as the Oil and Gas Leases cover those depths and intervals from the surface of the earth to the stratigraphic equivalent of the base of the Green River Formation as seen at 4,323 feet in the neutron log for the WestStar Raging Bull No. 1 well (API #43-047-3134400S1).
10. This Partial Assignment of Oil and Gas Leases is expressly made subject to the terms and conditions of that certain Participation Agreement dated effective March 1, 2004, with accompanying Exhibits attached thereto, by and between Assignor and Assignee (the "Agreement"). In the event that any terms and provisions of this Partial Assignment of Oil and Gas Leases conflict with any of the terms and provisions of the Agreement, the terms and provisions of the Agreement shall control.

TO HAVE AND TO HOLD the interests in the Oil and Gas Leases granted, bargained, sold, conveyed, transferred, assigned and delivered as aforesaid, together with all and singular the rights and appurtenances thereunto in anywise belonging, unto Assignee, Assignee's successors and assigns, forever, subject to the matters set forth herein.

Executed this _____ day of March, 2003, but effective as of the Effective Time.

ASSIGNOR:

WESTSTAR EXPLORATION COMPANY

By: _____
William C. Gilmore
President

ASSIGNEE:

THE HOUSTON EXPLORATION COMPANY

By: _____
Tracy Price
Senior Vice-President - Land

Exhibit "H"

000060

Attached to and made a part of that certain Participation Agreement
dated effective March 1, 2004 by and between
The Houston Exploration Company and WestStar Exploration Company

PARTIAL ASSIGNMENT OF OIL AND GAS LEASES

STATE OF UTAH §
 § KNOW ALL THESE MEN BY THESE PRESENTS:
COUNTY OF UTAH §

That WestStar Exploration Company, whose address is The Houston Club Building, 811 Rusk, Suite 710, Houston, Texas 77002 (hereinafter referred to as "Assignor") for and in consideration of the sum of One Hundred Dollars (\$100.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and for the mutual covenants herein contained, does hereby, transfer, assign, and convey, subject to the reservations, conditions and covenants hereinafter provided, unto The Houston Exploration Company, whose address is 1100 Louisiana, Suite 2000, Houston, Texas 77002-5215 (hereinafter referred to as "Assignee"), as of 12:01 a.m. Central Time, on March 1, 2004 (the "Effective Time"), an undivided fifty percent (50%) of 8/8ths interest in, to and under the oil and gas leases described in Exhibit "A" attached hereto and made a part hereof (the "Oil and Gas Leases").

This Partial Assignment of Oil and Gas Leases is made subject to the exceptions, reservations, covenants and conditions hereinafter set forth:

1. Assignor is retaining an interest in the Oil and Gas Leases .
2. This Partial Assignment of Oil and Gas Leases is made by Assignor and accepted by Assignee without recourse, representation or warranty of title whether express, implied or statutory, except that Assignor warrants and agrees to defend all and singular title to the interests in the Oil and Gas Leases assigned herein unto Assignee against lawful claims and demands by all persons claiming title to the interests in the Oil and Gas Leases assigned herein or any part thereof by, through and under Assignor, but not otherwise.
3. Assignee agrees that this Partial Assignment of Oil and Gas Leases is made specifically subject to the terms and provisions of the Oil and Gas Leases and by its execution hereof, Assignee agrees to assume, bear and pay its proportionate part of the obligations arising under and by virtue of the same.
4. This Partial Assignment of Oil and Gas Leases and all rights, reservations and covenants in connection therewith shall be considered covenants running with the land and shall inure to and be binding upon the parties hereto, their heirs, personal representatives, successors and assigns.
5. As part of the consideration for the execution and delivery of this instrument by Assignor, Assignee agrees to all of the terms and provisions hereof and joins in the execution of this instrument to evidence this agreement.
6. This Partial Assignment of Oil and Gas Leases shall be governed by and construed in accordance with the laws of the State of Texas without giving effect to principles of conflicts of law. This Partial Assignment of Oil and Gas Leases shall not be amended except by a written agreement executed by the parties hereto. This Partial Assignment of Oil and Gas Leases constitutes the entire agreement and understanding between the parties hereto regarding the subject matter herof.
7. If any provision of this Partial Assignment of Oil and Gas Leases is invalid, illegal or unenforceable, the balance of this instrument shall remain in full force and effect and be construed in all respects as if such invalid, illegal or unenforceable provision were omitted. If any provision is inapplicable to any person or circumstance, it shall, nevertheless, remain applicable to all other persons and circumstances.
8. This Partial Assignment of Oil and Gas Leases may be executed in any number of counterparts, and each counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one conveyance.

000061

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

On this _____ day of March, 2004 before me appeared William C Gilmore, to me personally known, who, being by me duly sworn (or affirmed) did say that he is President of WestStar Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that William C Gilmore acknowledged the instrument to be the free act and deed of the corporation

[SEAL]

Notary Public in and for the State of Texas

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

On this _____ day of March, 2004 before me appeared Tracy Price, to me personally known, who, being by me duly sworn (or affirmed) did say that he is Senior Vice President - Land of The Houston Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that Tracy Price, acknowledged the instrument to be the free act and deed of the corporation

[SEAL]

Notary Public in and for the State of Texas

000000

EXHIBIT "A"

Attached to a made a part of that certain Partial Assignment dated effective March 1, 2004 by and between
WestStar Exploration Exploration Company and The Houston Exploration Company

LSE NO.	LSE DATE EXP DATE	LESSOR NAME	LESSEE NAME	LEGAL DESCRIPTION	GROSS ACRES	NET ACRES	ROYALTY BURDEN	ORRI BURDENS	COUNTY	STATE
U-52765	May 1, 1983 HBP	United States of America, Utah State BLM Office	Davis Oil Company	<u>Township 8 South, Range 24 East, SLM</u> Section 26: E/2, NW/4, NW/4SW/4 Section 27: NE/4SE/4, S/2SE/4	640.00	640.00	Sliding Scale	7.80088%	Uintah	Utah
U-52767	May 1, 1983 HBP	United States of America, Utah State BLM Office	Peter I Wold	<u>Township 8 South, Range 24 East, SLM</u> Section 34 NW/4	160.00	160.00	Sliding Scale	From Base of Green River Formation to 6,433' - 6.35% All other depths - 7.00%	Uintah	Utah
U-54928	October 1, 1984 HBP	United States of America, Utah State BLM Office	George Vrame	<u>Township 8 South, Range 24 East, SLM</u> Section 27: S/2SW/4 Section 28: SE/4SE/4 Section 33: E/2NE/4	200.00	200.00	Sliding Scale	From Base of Green River Formation to 6,433' - .65% All other depths - 7.00%	Uintah	Utah
U-58725	March 1, 1986 HBP	United States of America, Utah State BLM Office	Exxon Corporation	<u>Township 8 South, Range 24 East, SLM</u> Section 33: W/2NE/4, NW/4, N/2SW/4, SE/4	480.00	480.00	Sliding Scale	5.00%	Uintah	Utah
U-58726	March 1, 1986 HBP	United States of America, Utah State BLM Office	Corbin J. Robinson	<u>Township 8 South, Range 24 East, SLM</u> Tract 1 Section 34 NW/4SW/4 Tract 2 Section 34: NE/4SW/4, S/2SW/4, SE/4 Section 35: S/2	40.00 600.00	40.0 600.00	Sliding Scale Sliding Scale	7.50% 1.00%	Uintah	Utah
<u>TOTAL</u>					2,120.00	2,120.00				

Attached to and made a part of that certain Participation Agreement
dated effective March 1, 2004 by and between
The Houston Exploration Company and WestStar Exploration Company

ASSIGNMENT, BILL OF SALE AND CONVEYANCE

STATE OF UTAH §
 §
COUNTY OF UTAH §

This Assignment, Bill of Sale and Conveyance ("Assignment") is entered into this the ____ day of March, 2004, but to be effective March 1, 2004 at 12:01 a.m. Central Time (the "Effective Date") by and between WestStar Exploration Company, whose address is The Houston Club Building, 811 Rusk, Suite 710, Houston, Texas 77002 ("ASSIGNOR"), and The Houston Exploration Company, whose address is 1100 Louisiana, Suite 2000, Houston, Texas 77002-5215 ("ASSIGNEE"). For One Hundred Dollars and other good and valuable consideration paid to ASSIGNOR, the receipt and sufficiency of which are hereby acknowledged, ASSIGNOR does hereby GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER, SET OVER, and DELIVER unto ASSIGNEE an undivided Fifty percent (50%) of 8/8ths interest in and to, and all privileges and obligations appurtenant to, the following described property rights and interests (such property, rights and interests are hereafter referred to collectively as the "Property"):

- a) The WestStar Q-T Federal wellbore (API #43-047-3190700S1) located in Section 34, Township 8 South, Range 24 East, SLM, Uintah County, Utah (the "Wellbore");
- b) All surface and production casing, equipment, materials and other personal property used or useful in connection with the Wellbore;
- c) A 4 ½ inch natural gas pipeline depicted on the plat attached hereto as Exhibit "A" (the "Natural Gas Pipeline");
- d) To the extent assignable or transferable, all easements, rights-of-way, licenses, permits, servitudes, surface leases, surface use agreements, fee tracts and similar rights and interests to the extent applicable to or used in operating the Wellbore and Natural Gas Pipeline or the personal property described above (the "Permits and Easements"); and,
- e) All other tangibles, miscellaneous interests or other assets on or used in connection with the Wellbore and Natural Gas Pipeline, including copies of all lease files, land files, well files (including well logs, seismic, geological and geophysical data), production records, division order files, abstracts, title opinions, and contract files, insofar as they are directly related to the Wellbore and Natural Gas Pipeline (the "Property Records").

TO HAVE AND TO HOLD the Property unto ASSIGNEE and its successors and assigns, forever, subject, however, to the terms and conditions of this Assignment.

ASSIGNOR further agrees that it will use its reasonable good faith efforts to, after the date hereof, from time to time and upon reasonable request of ASSIGNEE, execute, acknowledge and deliver or cause to be executed, acknowledged and delivered, in proper form, any instrument of conveyance, assignment, transfer or other instruments necessary or desirable in order to perfect in ASSIGNEE, its successors and assigns, title to the Property.

Upon and after the Effective Date, ASSIGNEE will assume, pay and perform its proportionate share of all the obligations, liabilities and duties with respect to the ownership and operation of the Property that are attributable to periods on and after the Effective Date, including without limitation, the following:

000061

- (a) Responsibility for payment of its proportionate share of all operating expenses and capital expenditures related to the Property and attributable to the period on and after the Effective Date;
- (b) Responsibility for performance of its proportionate share of all express and implied obligations and covenants under the terms of the Permits and Easements, to the extent those obligations and covenants are required to be performed on or after the Effective Date; and,
- (c) Responsibility for compliance with all applicable laws, ordinances, rules and regulations pertaining to the Property, and the procurement and maintenance of all permits required by public authorities in connection with the Property on and after the Effective Date.

ASSIGNOR will retain responsibility for all liabilities, obligations and duties with respect to the ownership and (if applicable) operation of the Property that are attributable to periods before the Effective Date, including without limitation, the following:

- (a) Responsibility for the payment of all operating expenses and capital expenditures related to the Property and attributable to the period prior to the Effective Date;
- (b) Responsibility for performance of all express and implied obligations and covenants under the terms of the Permits and Easements, to the extent those obligations and covenants are required to be performed before the Effective Date; and,
- (c) Responsibility for compliance with all applicable laws, ordinances, rules and regulations pertaining to the Property, and the procurement and maintenance of all permits required by public authorities in connection with the Property before the Effective Date.

This Assignment is made subject to the exceptions, reservations, covenants and conditions hereinafter set forth:

- (a) Assignor is retaining an interest in the Properties.
- (b) This Assignment is made by Assignor and accepted by Assignee without recourse, representation or warranty of title whether express, implied or statutory, except that Assignor warrants and agrees to defend all and singular title to the interests in the Property assigned herein unto Assignee against lawful claims and demands by all persons claiming title to the interests in the Property assigned herein or any part thereof by, through and under Assignor, but not otherwise.
- (c) The conveyance of personal property and fixtures is made "AS IS, WHERE IS" WITHOUT WARRANTY OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING BUT NO LIMITED TO WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.
- (d) This Assignment and all rights, reservations and covenants in connection therewith shall be considered covenants running with the land and shall inure to and be binding upon the parties hereto, their heirs, personal representatives, successors and assigns.
- (e) As part of the consideration for the execution and delivery of this instrument by Assignor, Assignee agrees to all of the terms and provisions hereof and joins in the execution of this instrument to evidence this agreement.

- 000065
- (f) This Assignment shall be governed by and construed in accordance with the laws of the State of Texas without giving effect to principles of conflicts of law. This Assignment shall not be amended except by a written agreement executed by the parties hereto. This Assignment constitutes the entire agreement and understanding between the parties hereto regarding the subject matter hereof.
 - (g) If any provision of this Assignment is invalid, illegal or unenforceable, the balance of this instrument shall remain in full force and effect and be construed in all respects as if such invalid, illegal or unenforceable provision were omitted. If any provision is inapplicable to any person or circumstance, it shall, nevertheless, remain applicable to all other persons and circumstances.
 - (h) This Assignment may be executed in any number of counterparts, and each counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one conveyance.
 - (i) This Assignment is expressly made subject to the terms and conditions of that certain Participation Agreement dated effective March 1, 2004, with accompanying Exhibits attached thereto, by and between Assignor and Assignee (the "Agreement"). In the event that any terms and provisions of this Assignment conflict with any of the terms and provisions of the Agreement, the terms and provisions of the Agreement shall control.

This Assignment may be executed in any number of counterparts, and by different parties in separate counterparts, and each counterpart hereof shall be deemed to be an original instrument, but all such counterparts shall constitute but one instrument.

IN WITNESS WHEREOF this Assignment has been executed and delivered on the date set forth above, but effective as of the Effective Date.

ASSIGNOR:

WESTSTAR EXPLORATION COMPANY

By: _____
William C. Gilmore
President

ASSIGNEE:

THE HOUSTON EXPLORATION COMPANY

By: _____
Tracy Price
Senior Vice-President - Land

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

000066

On this _____ day of March, 2004 before me appeared William C. Gilmore, to me personally known, who, being by me duly sworn (or affirmed) did say that he is President of WestStar Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that William C. Gilmore acknowledged the instrument to be the free act and deed of the corporation.

[SEAL]

Notary Public in and for the State of Texas

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

On this _____ day of March, 2004 before me appeared Tracy Price, to me personally known, who, being by me duly sworn (or affirmed) did say that he is Senior Vice President - Land of The Houston Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that Tracy Price, acknowledged the instrument to be the free act and deed of the corporation.

[SEAL]

Notary Public in and for the State of Texas

Exhibit "J"

000067

Attached to and made a part of that certain Participation Agreement
dated effective March 1, 2004 by and between
The Houston Exploration Company and WestStar Exploration Company

WHEN RECORDED, MAIL TO:

William C. Gilmore
150 Sabine Street, Suite 333
Houston, TX 77007

DEED OF RECONVEYANCE

Gordon A. Kovacs, as Successor Trustee under a Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Financing Statement executed by Gilmore, as trustor, on July 9, 1993, in favor of Washington Mutual Bank's predecessor-in-interest, Midland American Bank, as beneficiary, and which was recorded in the Official Records of the Uintah County Recorder on July 26, 1993 as Entry No. 93004168 in Book 553 at Pages 547-563, and which was amended on September 27, 1994, February 25, 1995 and September 25, 1995 pursuant to Amendments recorded in the Official Records of the Uintah County Recorder on January 18, 1995 as Entry No. 95000323 in Book 588 at Pages 764-770, May 31, 1995 as Entry No. 95002954 in Book 596 at Pages 625-31, and October 16, 1995 as Entry No. 95005722 in Book 604 at Pages 715-23, respectively (collectively referred to herein as the "Deed of Trust"), having received from the holder of the obligations thereunder a written request to reconvey and said Deed of Trust and the note or notes secured thereby having been surrendered to said Successor Trustee for cancellation, does hereby reconvey, without warranty, to the person or persons entitled thereto, the trust property now held by him as Successor Trustee under said Deed of Trust, which covers certain federal oil and gas leases located in Uintah County, Utah ("Leased Property"), and more particularly described as follows:

Federal 26-1, 27-2, 27-3 Wells:

The East half of Section 26, the Northwest quarter and the Northwest quarter of the Southwest Quarter of Section 26, the Northeast quarter of the Southeast quarter and the South half of the Southeast quarter of Section 27, Township 8 South, Range 24 East, Salt Lake Meridian.

Federal 27-1 Lease:

The South half of the Southwest quarter of Section 27, the Southeast quarter of Section 28 and the East half of the Northeast quarter of Section 33, Township 8 South, Range 24 East, Salt Lake Meridian.

Federal 33-1 Lease:

000068

The West half of the Northeast quarter, the Northwest quarter of the North half of the Southwest quarter and the Southeast quarter of Section 33, Township 8 South, Range 24 East, Salt Lake Meridian.

Q.T. Federal 34-1 Lease:

The Northwest quarter of the Southwest quarter of Section 34, the Northeast quarter of the Southwest quarter, the South half of the Southwest quarter Southwest Quarter and the Southeast quarter of Section 34 and the South half of Section 35, Township 8 South, Range 25 East, Salt Lake Meridian.

Raging Bull Lease:

The Northeast quarter of the Southwest quarter and the South half of the Southwest quarter of Section 26, Township 8 South, Range 24 East, Uintah County, Utah.

Little Bonanza Federal No. 1-4 Lease:

The East half of Section 4, Township 9 South, Range 24 East, Uintah County, Utah.

IN WITNESS WHEREOF, said Successor Trustee has executed this document this ____ day of March, 2004.

SUCCESSOR TRUSTEE:

Gordon A. Kovacs
in his capacity as Successor Trustee

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of March, 2004 by Gordon A. Kovacs.

NOTARY PUBLIC

EXHIBIT "K"

**Attached to and made a part of that certain Participation Agreement
dated effective March 1, 2004, by and between The Houston Exploration Company
and WestStar Exploration Company**

000069

CURRENT UNSATISFIED MORTGAGES AFFECTING MINERAL OWNERS

**FINANCIAL STATEMENT
(UINTAH COUNTY, UTAH)**

Co. Recording: 671/381
Dated: 7/26/93 (original date filed)
Rec. Date: 06/15/98
Grantor: William C. Gilmore
Grantee: Midland American Bank
Note: Continuation – The original statement is still effective
APPEARS UNRELEASED

**FINANCIAL STATEMENT
(UINTAH COUNTY, UTAH)**

Co. Recording: 671/378
Dated: 7/26/93 (original date filed)
Rec. Date: 06/15/98
Grantor: William C. Gilmore
Grantee: Texas National Bank of Midland
Note: Continuation – The original statement is still effective
APPEARS UNRELEASED

**FINANCIAL STATEMENT
(UINTAH COUNTY, UTAH)**

Co. Recording: 671/375
Dated: 7/26/93 (original date filed)
Rec. Date: 06/15/98
Grantor: William C. Gilmore
Grantee: Texas National Bank of Midland
Note: Continuation – The original statement is still effective
APPEARS UNRELEASED

**FOURTH AMENDMENT OF DEED OF TRUST, MORTGAGE, SECURITY AGREEMENT,
ASSIGNMENT OF PRODUCTION, FINANCING STATEMENT
(UINTAH COUNTY, UTAH)**

Co. Recording: 626/424
Dated: 08/16/96
Rec. Date: 09/27/96
Grantor: William C. Gilmore
Grantee: Midland American Bank
Note: Re; 596/625 (Second Amendment),
588/764 (First Amendment),
553/547 (Original Deed of Trust dated 7/9/93).
APPEARS UNRELEASED

UNSATISFIED JUDGMENTS OR LIENS

Eighth District Court – Vernal, Uintah County, UT

Case # 970800250 Decree of Foreclosure and Order of Sale and Appointment of Receiver

Washington Mutual Bank, as successor-by-merger to Midland American Bank, Plaintiff

Vs.

**William C. Gilmore dba Gilmore Oil & Gas,
Colorado Well Service, Inc.**

**Murray Disposal,
Big Red Hot Oil Service, L.L.C**

Denile Smuin Service Co.

John Does 1 through 10 - Defendants

William C. Gilmore, Counterplaintiff

Vs.

Midland American Bank, Counterdefendant

Dated March 5, 2004

Filed March 8, 2004

"It is further ordered, adjudged and decreed that the Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Financing Statement: executed by Gilmore, as trustor, on July 9, 1993 in favor of Washington Mutual's predecessor-in-interest, Midland American Bank, as beneficiary, and which was recorded Uintah County on July 26, 1993 as Entry No. 93004168 in Book 553 at Pages 547-563, and which was amended on September 27, 1994, February 25, 1995 and September 25, 1995 pursuant to Amendments recorded in Uintah County on January 18, 1995 as Entry No. 95000323 in Book 588 at Pages 764-777, May

Tab D

ASSIGNMENT, BILL OF SALE AND CONVEYANCE

STATE OF UTAH §
COUNTY OF UTAH §

ENTRY 2004002845
Book 879 PAGE 50-55 \$22.00
15-APR-04 01:12
RANDY SIMMONS
RECORDER, UTAH COUNTY, UTAH
THE HOUSTON EXPLORATION COMPANY
1100 LOUISIANA, STE 2000 HOUSTON, TX
Rec By: CARADIE ASH, DEPUTY

This Assignment, Bill of Sale and Conveyance ("Assignment") is entered into this the 26th day of March, 2004, but to be effective March 1, 2004 at 12:01 a.m. Central Time (the "Effective Date") by and between WestStar Exploration Company, whose address is The Houston Club Building, 811 Rusk, Suite 710, Houston, Texas 77002 ("ASSIGNOR"), and The Houston Exploration Company, whose address is 1100 Louisiana, Suite 2000, Houston, Texas 77002-5215 ("ASSIGNEE"). For One Hundred Dollars and other good and valuable consideration paid to ASSIGNOR, the receipt and sufficiency of which are hereby acknowledged, ASSIGNOR does hereby GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER, SET OVER, and DELIVER unto ASSIGNEE an undivided Fifty percent (50%) of 8/8ths interest in and to, and all privileges and obligations appurtenant to, the following described property rights and interests (such property, rights and interests are hereafter referred to collectively as the "Property"):

- a) The WestStar Q-T Federal wellbore (API #43-047-3190700ST) located in Section 34, Township 8 South, Range 24 East, SLM, Uintah County, Utah (the "Wellbore");
- b) All surface and production casing, equipment, materials and other personal property used or useful in connection with the Wellbore;
- c) A 4 1/4 inch natural gas pipeline depicted on the plat attached hereto as Exhibit "A" (the "Natural Gas Pipeline");
- d) To the extent assignable or transferable, all easements, rights-of-way, licenses, permits, servitudes, surface leases, surface use agreements, fee tracts and similar rights and interests to the extent applicable to or used in operating the Wellbore and Natural Gas Pipeline or the personal property described above (the "Permits and Easements"); and,
- e) All other tangibles, miscellaneous interests or other assets on or used in connection with the Wellbore and Natural Gas Pipeline, including copies of all lease files, land files, well files (including well logs, seismic, geological and geophysical data), production records, division order files, abstracts, title opinions, and contract files, insofar as they are directly related to the Wellbore and Natural Gas Pipeline (the "Property Records").

TO HAVE AND TO HOLD the Property unto ASSIGNEE and its successors and assigns, forever, subject, however, to the terms and conditions of this Assignment.

ASSIGNOR further agrees that it will use its reasonable good faith efforts to, after the date hereof, from time to time and upon reasonable request of ASSIGNEE, execute, acknowledge and deliver or cause to be executed, acknowledged and delivered, in proper form, any instrument of conveyance, assignment, transfer or other instruments necessary or desirable in order to perfect in ASSIGNEE, its successors and assigns, title to the Property.

Upon and after the Effective Date, ASSIGNEE will assume, pay and perform its proportionate share of all the obligations, liabilities and duties with respect to the ownership and operation of the Property that are attributable to periods on and after the Effective Date, including without limitation, the following:

- (a) Responsibility for payment of its proportionate share of all operating expenses and capital expenditures related to the Property and attributable to the period on and after the Effective Date;

- (b) Responsibility for performance of its proportionate share of all express and implied obligations and covenants under the terms of the Permits and Basements, to the extent those obligations and covenants are required to be performed on or after the Effective Date; and,
- (c) Responsibility for compliance with all applicable laws, ordinances, rules and regulations pertaining to the Property, and the procurement and maintenance of all permits required by public authorities in connection with the Property on and after the Effective Date.

ASSIGNOR will retain responsibility for all liabilities, obligations and duties with respect to the ownership and (if applicable) operation of the Property that are attributable to periods before the Effective Date, including without limitation, the following:

- (a) Responsibility for the payment of all operating expenses and capital expenditures related to the Property and attributable to the period prior to the Effective Date;
- (b) Responsibility for performance of all express and implied obligations and covenants under the terms of the Permits and Basements, to the extent those obligations and covenants are required to be performed before the Effective Date; and,
- (c) Responsibility for compliance with all applicable laws, ordinances, rules and regulations pertaining to the Property, and the procurement and maintenance of all permits required by public authorities in connection with the Property before the Effective Date.

This Assignment is made subject to the exceptions, reservations, covenants and conditions hereinafter set forth:

- (a) Assignor is retaining an interest in the Properties.
- (b) This Assignment is made by Assignor and accepted by Assignee without recourse, representation or warranty of title whether express, implied or statutory, except that Assignor warrants and agrees to defend all and singular title to the interests in the Property assigned herein unto Assignee against lawful claims and demands by all persons claiming title to the interests in the Property assigned herein or any part thereof by, through and under Assignor, but not otherwise.
- (c) The conveyance of personal property and fixtures is made "AS IS, WHERE IS" WITHOUT WARRANTY OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.
- (d) This Assignment and all rights, reservations and covenants in connection therewith shall be considered covenants running with the land and shall inure to and be binding upon the parties hereto, their heirs, personal representatives, successors and assigns.
- (e) As part of the consideration for the execution and delivery of this instrument by Assignor, Assignee agrees to all of the terms and provisions hereof and joins in the execution of this instrument to evidence this agreement.
- (f) This Assignment shall be governed by and construed in accordance with the laws of the State of Texas without giving effect to principles of conflicts of law. This Assignment shall not be amended except by a written agreement executed by the parties hereto. This Assignment constitutes the entire agreement and understanding between the parties hereto regarding the subject matter hereof.

- (g) If any provision of this Assignment is invalid, illegal or unenforceable, the balance of this instrument shall remain in full force and effect and be construed in all respects as if such invalid, illegal or unenforceable provision were omitted. If any provision is inapplicable to any person or circumstance, it shall, nevertheless, remain applicable to all other persons and circumstances.
- (h) This Assignment may be executed in any number of counterparts, and each counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one conveyance.
- (i) This Assignment is expressly made subject to the terms and conditions of that certain Participation Agreement dated effective March 1, 2004, with accompanying Exhibits attached thereto, by and between Assignor and Assignee (the "Agreement"). In the event that any terms and provisions of this Assignment conflict with any of the terms and provisions of the Agreement, the terms and provisions of the Agreement shall control.

This Assignment may be executed in any number of counterparts, and by different parties in separate counterparts, and each counterpart hereof shall be deemed to be an original instrument, but all such counterparts shall constitute but one instrument.

IN WITNESS WHEREOF this Assignment has been executed and delivered on the date set forth above, but effective as of the Effective Date.

ASSIGNOR:

WESTSTAR EXPLORATION COMPANY

By: William C. Gilmore
William C. Gilmore
President

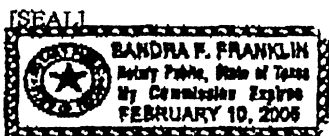
ASSIGNEE:

THE HOUSTON EXPLORATION COMPANY

By: Tracy Price
Tracy Price
Senior Vice-President - Land

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

On this 26th day of March, 2004 before me appeared William C. Gilmore, to me personally known, who, being by me duly sworn (or affirmed) did say that he is President of WestStar Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that William C. Gilmore acknowledged the instrument to be the free act and deed of the corporation.

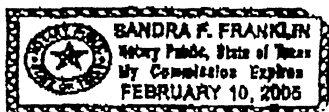


Sandra F. Franklin
Notary Public in and for the State of Texas

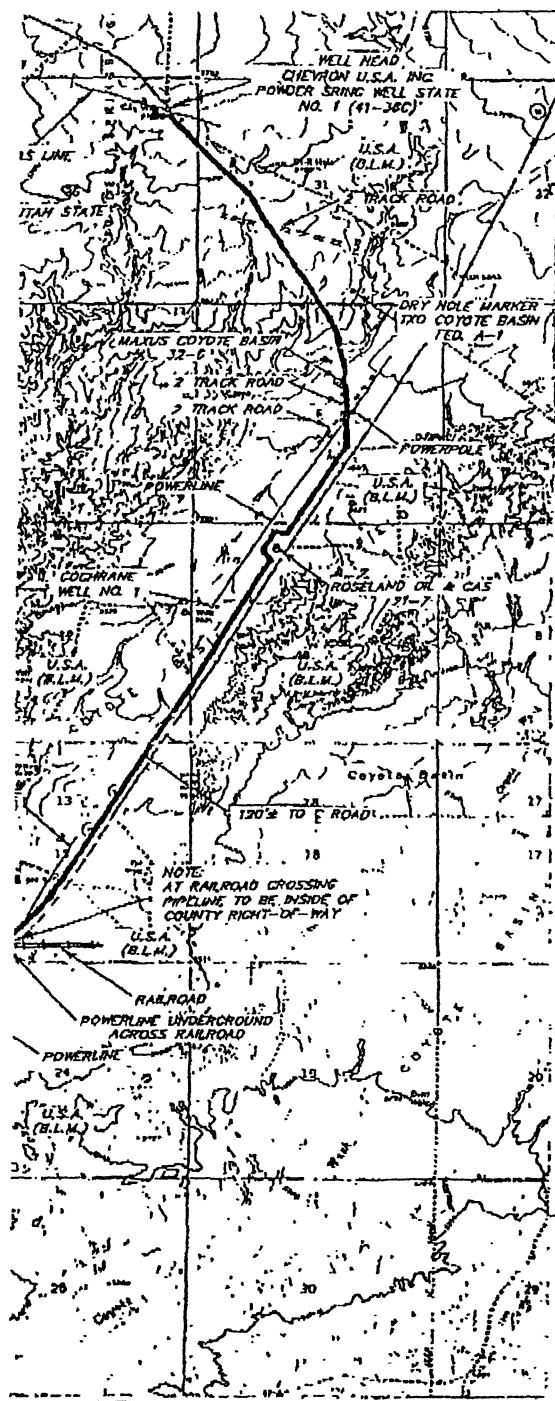
THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

On this 26th day of March, 2004 before me appeared Tracy Price, to me personally known, who, being by me duly sworn (or affirmed) did say that he is Senior Vice President - Land of The Houston Exploration Company, and that the foregoing instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors and that Tracy Price, acknowledged the instrument to be the free act and deed of the corporation.

[SEAL]



Sandra F. Franklin
Notary Public in and for the State of Texas



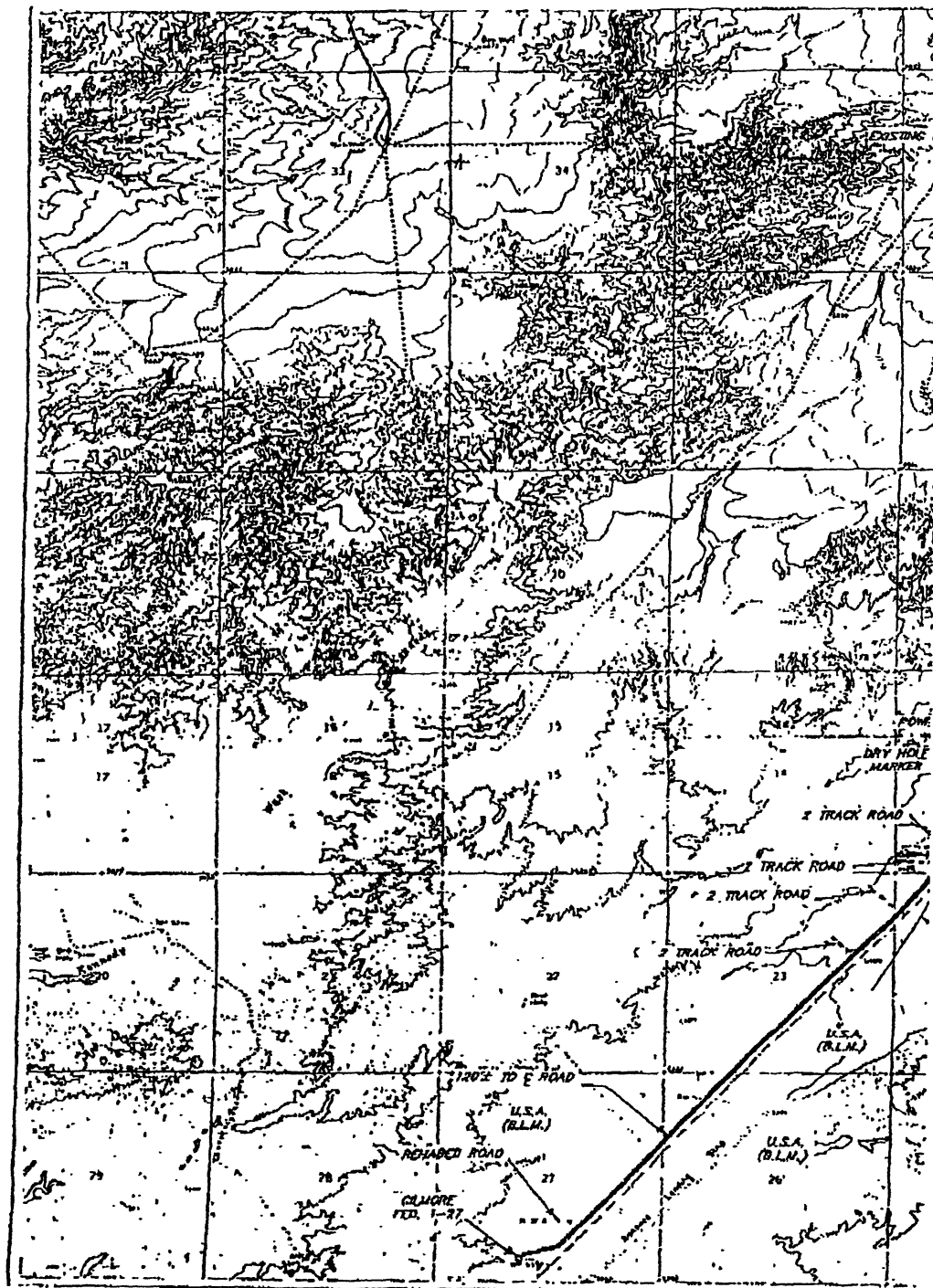
Attached to and made a part of
 Assignment, Site of Sale and Conveyance
 dated April 1, 1964 by and between ENTRY 2004002845
 Western Exploration Company and
 The American Petroleum Company BOOK 379 PAGE 54

BONANZA GAS COMPANY, INC.

**PROPOSED
 PIPELINE RIGHT-OF-WAY
 ON UTAH STATE LANDS
 AND B.L.M. LANDS**

LOCATED IN
 SECTION 38, T7S, R24E, S.L.B.&M.
 SECTION 31, T7S, R25E, S.L.B.&M.
 SECTIONS 6, 7, T8S, R25E, S.L.B.&M.
 SECTIONS 12, 13, 23, 24, 26, & 27,
 T8S, R24E, S.L.B.&M.
 UTAH COUNTY, UTAH

UTAH ENGINEERING & LAND SURVEYING	
66 SOUTH 200 EAST - VERNAL, UTAH 84078	
(001) 733-1017	
SCALE 1" = 300'	DATE 1-8-61
SURVEYED BY A.F. J.R.	DRAWN BY A.F.J.
WEATHER CLR	TEMP 30.75-A



Tab E

**BUREAU OF LAND MANAGEMENT
CASE RECORDATION
(LIVE) Serial Register Page**

In Date/Time 09/15/06 08 16 AM

Page 1 of 1

02-25-1920;041STAT0437;30USC185 SEC. 28
 se Type 288100: ROW-O&G PIPELINES
 mmodity 969: OIL & GAS FACILITIES
 se Disposition: AUTHORIZED

Total Acres
17.470

Serial Number
UTU--- - 065139

Serial Number: UTU--- - 065139

se & Address	Int Rel	%Interest
STSTAR EXPLORATION CO 811 RUSK # 708 HOUSTON TX 77002	HOLDER/BILLEE	100 00000000

Serial Number: UTU--- - 065139

Twp Rng	Sec	SType SNr Suff	Subdivision	District/Resource Area	County	Mgmt Agency
080S 0240E 012	ALIQ	E2SE,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	
080S 0240E 013	ALIQ	N2NE,SWNE,NESW,S2SW,NWSE,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	
080S 0240E 023	ALIQ	NENE,S2NE,SESW,W2SE,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	
080S 0240E 024	ALIQ	NWNW,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	
080S 0240E 026	ALIQ	N2NW,SWNW,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	
080S 0240E 027	ALIQ	SENE,SESW,N2SE,SWSE,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	
070S 0250E 031	ALIQ	SWNW,N2SW,SESW,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	
080S 0250E 006	ALIQ	SWNE,SESW,W2SE,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	
080S 0250E 006	LOTS	2,3,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	
080S 0250E 007	ALIQ	NENW,S2NW,NWSW,	VERNAL FIELD OFFICE	UINTAH	BUREAU OF LAND MGMT	

Serial Number: UTU--- - 065139

Date	Code	Action	Action Remarks	Pending Office
5/1990	124	APLN RECD		
8/1990	104	ADDTL INFO RQSTD	FROM APPLICANT	
5/1991	065	COST RECOV (MON) RECD	\$25;	
5/1991	971	COST RECOV (PROC) RECD	\$125;	
1/1991	307	ROW GRANTED-ISSUED	/A/	
1/1991	502	LENGTH IN FEET	38050;	
1/1991	504	WIDTH IN FEET (TOTAL)	20;	
1/1991	505	DIAMETER OF PIPE (INCHES)	VAR;2 7/8 & 4"	
1/1991	600	RECORDS NOTED		
1/1996	111	RENTAL RECEIVED	\$583.00;THRU 12-31-00	
1/2001	111	RENTAL RECEIVED	\$126.31;THRU 12-31-01	
1/2002	111	RENTAL RECEIVED	\$129.28;THRU 12-31-02	
1/2003	111	RENTAL RECEIVED	\$130.68;THRU 12-31-03	
1/2004	111	RENTAL RECEIVED	\$132.60;THRU 12-31-04	
1/2004	379	REFUND AUTHORIZED	\$135.57;OVERPAYMENT	
1/2005	111	RENTAL RECEIVED	\$135.57;THRU 12-31-05	
1/2005	111	RENTAL RECEIVED	\$135.57;THRU12-31-05	
1/2005	379	REFUND AUTHORIZED	\$135.57;	
1/2005	111	RENTAL RECEIVED	\$139.93;THRU 12-31-06	
1/2006	139	ASGN APPROVED	BONANZA GAS CO	
1/2006	140	ASGN FILED		
1/2007	097	NEXT BILLING DATE		
1/2021	763	EXPIRES		

r Remarks

Serial Number: UTU--- - 065139

NO WARRANTY IS MADE BY BLM

**BUREAU OF LAND MANAGEMENT
CASE RECORDATION
(LIVE) Serial Register Page**

In Date/Time: 09/15/06 08:16 AM

Page 2 of

001	/A/ SURFACE NATURAL GAS PIPELINE TO WELLS #1-27, OG
002	LEASE U-54928, 27-2, 27-3 OG LEASE U-52765, 34-1
003	34-2 OG LEASE U-52767 & COMPRESSOR STATION