

EXHIBIT “ ”
ACCOUNTING PROCEDURE
JOINT OPERATIONS

Attached to and made part of _____

I. GENERAL PROVISIONS

1. DEFINITIONS

The following capitalized terms have the meaning ascribed to them in this Section I.1. However, if the term is expressly defined in the Agreement, the definition in the Agreement controls.

“**AFE**” means an Authority for Expenditure prepared by a party to the Agreement for the purpose of estimating the costs to be incurred in conducting an operation under the Agreement.

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

“**Agreed Interest**” means interest, compounded monthly, at the rate per annum equal to the prime rate published by *The Wall Street Journal*, or by the Federal Reserve if *The Wall Street Journal* is not published, on the first business day of the month in which payment is due, and afterwards on the first business day of each succeeding month, plus three percentage points. If the aforesaid rate is contrary to any applicable usury Law, the interest rate will be the maximum rate permitted by Law.

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

“**Catastrophe**” means a sudden calamitous event bringing damage, loss, or destruction to property or the environment, such as an oil spill, blowout, explosion, fire, storm, hurricane, or other disaster.

“**Controllable Material**” means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified by the Council of Petroleum Accountants Societies, Inc. (COPAS).

“**Environmental Project**” means a project to investigate and remediate environmental conditions, or to prevent environmental claims, that is necessary and proper for the direct benefit of the Joint Operations. An Environmental Project does not include routine operations, such as exploration, appraisal, development, production, maintenance, repair, Major Construction projects, or Catastrophe projects.

“**Field Office**” means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is to directly serve operation of the Joint Property and which serves as a staging area for directly chargeable employees and contractors who operate the Joint Property.

“**First Level Supervision**” means those individuals whose primary function in Joint Operations is the direct oversight of directly chargeable employees and contractors who operate the Joint Property. First Level Supervision functions may include:

- (i) responsibility for employees and contractors engaged in field operations activities, such as production operations, maintenance, construction, well remedial work, equipment movement and drilling;
- (ii) responsibility for day-to-day direct oversight of rig operations;
- (iii) responsibility for day-to-day direct oversight of construction operations;
- (iv) coordination of job priorities and approval of work procedures;
- (v) responsibility for optimal resource utilization (equipment, Materials, personnel);
- (vi) responsibility for meeting production and operating expense targets;

- (vii) representation of the Parties in local matters involving community, vendors, regulatory agencies, and landowners, as an incidental part of the supervisor's operating responsibilities;
- (viii) responsibility for all emergency responses with employees and contractors who operate the Joint Property;
- (ix) responsibility for ensuring employees and contractors operate the Joint Property in compliance with company policies and procedures;
- (x) responsibility for employment decisions and performance appraisals for employees who operate the Joint Property; and
- (xi) oversight of sub-groups for operations functions such as electrical, HSE, communications, instrumentation, measurement, which may have group or team leaders.

"HSE" means health, safety, and environment.

"Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be shared by the Parties, but does not include the account pertaining to volumes or proceeds attributable to hydrocarbons and by-products produced under the Agreement.

"Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection, maintenance, repair, abandonment, and restoration of the Joint Property.

"Joint Property" means the real and personal property subject to the Agreement, regardless of location.

"Laws" means any statutes, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions contemplated by the Agreement or the Parties and their activities and operations under the Agreement. This term applies to Laws that exist as of the effective date of the Agreement as well as those that are hereafter amended, enacted, promulgated, or issued.

"Major Construction" means a project to construct and install, expand, or modify fixed assets beyond the wellhead that are required for Joint Operations, or the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating facilities.

"Material" means personal property, equipment, supplies, or consumables acquired or held for use in Joint Operations.

"Non-Operators" means the Parties other than the Operator.

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

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

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

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

"Payroll Burden and Benefits" means payroll-related costs other than salary and wages, such as payroll taxes, employee benefits, workers' compensation insurance, unemployment taxes, and time-off pay.

"Personal Expenses" means costs for transportation, meals, lodging, temporary living accommodations, relocation, and other expenses reimbursed under the usual practice of the Operator or its Affiliate, as applicable.

"Remote Technology Center" means a facility, regardless of location, having dedicated technical and/or operations staffing, that directly monitors and/or controls Joint Operations on a real-time basis.

"Shore Base Facilities" means onshore support facilities that provide such services to the Joint Property as a receiving and transshipment point for Material; debarkation point for operations personnel

and services; communication, scheduling, and dispatching center; and other associated functions serving Joint Operations.

“**Technical Services**” means engineering, geosciences, or other professional services (such as those performed by engineers, geologists, geophysicists, HSE specialists, technicians) that handle or address specific operating conditions or problems for the benefit of Joint Operations. Technical Services also includes design and drafting. Technical Services does not include those functions specifically identified as overhead under the second paragraph of Section III (*Overhead*).

2. STATEMENTS AND BILLINGS

The Operator shall bill each Non-Operator on or before the last day of the month for its proportionate share of the Joint Account for the preceding month. Bills and statements must identify the AFE, lease or facility, and all charges and credits summarized by appropriate categories of investment and expense, and a summary of all Controllable Material by major Material classifications. Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.

The Operator will make available to Non-Operators any statements and bills required under Section I.2 or Section I.3.A (*Advances and Payments*) by electronic means or by paper copy. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and bills within the timeframes specified herein. An electronic statement or bill will be deemed as delivered 24 hours (exclusive of weekends and federal holidays) after the Operator notifies the Non-Operator that the statement or bill is available. Upon request from a Non-Operator, Operator shall provide the bills and statements to such Non-Operator in another medium, if reasonably available to Operator.

3. ADVANCES AND PAYMENTS

A. Except as otherwise provided for in the Agreement, the Operator may require one or more of the Non-Operators to advance their share of the estimated cash outlay for the succeeding month’s operations. Each such statement and invoice for the payment in advance of estimated expense will be submitted on or before the 20th day of the preceding month. Each Non-Operator shall pay to Operator its proportionate share of such estimate within 30 days after receipt of the advance request. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is due, the Operator shall apply the refund to the subsequent month’s billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator shall remit the refund to the Non-Operator within 30 days of receipt of such written request.

B. Except as provided below, each Non-Operator shall pay its proportionate share of each bill in full within 30 days of receipt. If the due date is on a weekend or on a federal holiday, the payment will be due the following business day. If payment is not made within such time, the Non-Operator shall pay interest at the Agreed Interest rate on the unpaid balance, if requested by Operator. Agreed Interest on late payments accrues the day after the due date until the date the Operator receives payment. In addition, the delinquent Party shall reimburse Operator for attorney’s fees, court costs, and other costs incurred by Operator in connection with the collection of unpaid amounts. Non-Operator may not reduce or delay payment as a result of inquiries or anticipated credits unless the Operator has agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment to the extent such reduction is caused by being billed for:

- (i) an incorrect working interest or Participating Interest that is higher than such Non-Operator’s actual working interest or Participating Interest, as applicable;
- (ii) a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved or is not otherwise obligated to pay under the Agreement;
- (iii) a property in which the Non-Operator no longer owns a working interest, except for costs which remain the responsibility of the Non-Operator according to the transfer of interest requirements in the Agreement; or
- (iv) charges outside the adjustment period, as provided in Section I.4 (*Adjustments*).

If the Non-Operator reduces payment pursuant to items (i) through (iv), it must furnish Operator documentation or explanation prior to the payment due date. If any amount withheld pursuant to this provision is determined to be due and payable, and is paid after the due date, such delinquent amount is subject to the Agreed Interest at the discretion of the Operator.

4. ADJUSTMENTS

- A. Payment of a bill shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct, with respect only to expenditures, after 24 months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a written response to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).
- B. All adjustments initiated by the Operator, except those described in items (i) through (iv) of this Section I.4.B, must be made no later than 24 months following the end of the calendar year in which the original charge appeared or should have appeared on the Joint Account statement or payout statement. Adjustments that may be made after such 24-month period are limited to those resulting from any of the following:
- (i) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*);
 - (ii) an offsetting entry (whether in whole or in part) that is the direct result of a specific written exception or inquiry relating to another property or agreement;
 - (iii) a retroactive adjustment resulting from an audit or assessment by a government entity; or
 - (iv) a working interest ownership or Participating Interest adjustment.
- C. Any allocation or reallocation of preliminary project costs or costs for shared equipment, facilities, or services among wells or projects receiving benefit should appear on the Joint Account statement or payout statement when the well or project receives benefit. Examples include: location staking, permitting fees, rights of way and easement payments, environmental assessments, shared pads, production facilities, and drilling support facilities.

5. EXPENDITURE AUDITS

- A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, has the right to audit the Operator's accounts and records relating to any bills rendered, unless otherwise provided in the Agreement. The audit must be conducted no later than 24-months following the end of the calendar year in which such bill was rendered. Conducting an audit will not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Section I.4 (*Adjustments*).

Any Party subject to payout accounting under the Agreement has the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons insofar as they pertain to payout accounting required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account statement must be conducted no later than 24 months following the end of the calendar year in which the payout statement was rendered.

The Non-Operators shall make every reasonable effort to conduct a joint audit in a manner that will result in a minimum of inconvenience to the Operator. The Operator will bear no portion of the Non-Operator's audit cost. The audits may not be conducted more than once each year without prior approval of the Operator, except upon the resignation or removal of the Operator.

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

A timely filed written exception will, with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with the deadline in Section I.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators will lapse, and such claims will then be subject to the applicable statute of limitations.

- B. The Operator shall provide a written response to all exceptions in an audit report within 180 days after Operator receives such report. Denied exceptions should be accompanied by a substantive written response. If the Operator fails to provide a substantive written response to an exception within this 180-day period, upon request by Non-Operator the Operator will owe Agreed Interest on that exception or portion thereof, if ultimately granted, from the date Operator received the audit report until the date the Non-Operator receives payment or credit on its joint interest bill.
- C. The lead audit company shall reply in writing to the Operator's response to an audit report within 90 days of receipt, and the Operator shall respond in writing to the lead audit company's follow-up reply within 90 days of receipt; provided, however, each Non-Operator has the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not adequately fulfilling its duties. If the Operator fails to provide a substantive written response to an exception within this 90-day period, upon request by Non-Operator the Operator will owe Agreed Interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report until the date the Non-Operator receives payment or credit on its joint interest bill.
- D. If any Party fails to meet the deadlines in Sections I.5.B or I.5.C, or if any audit issues are outstanding 15 months after Operator received the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution meeting, as set forth in this Section I.5.D, or it may invoke the dispute resolution procedures included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting will be held at the Operator's office or mutually agreed location and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company shall make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the resolution process; however, each Non-Operator has the right to represent itself. Attendees shall make good faith efforts to resolve outstanding issues, and the Parties must present substantive information supporting their position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

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

- E. ☐ **[OPTIONAL PROVISION – FORFEITURE PENALTIES]**
THIS PROVISION APPLIES ONLY IF THE PARTIES EXPRESS THEIR INTENT TO INCLUDE IT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION. THIS PROVISION WILL NOT FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENECE MAY BE MADE CONCERNING THE PARTIES' INTENT IF THEY FAIL TO INDICATE THEIR INTENT TO ADOPT IT.

If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed by the Non-Operators within one year following receipt of the last substantive response of the Operator are deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section I.5.B or I.5.C, any unresolved exceptions that were not addressed by the Operator within one year following receipt of the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, are deemed to have been granted by the Operator and adjustments shall be made, without interest, to the Joint Account.

6. APPROVAL BY PARTIES

A. General Matters

When an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting Procedure, the Operator shall notify all Non-Operators who are eligible to vote of the Operator's proposal. Except for approvals required under Sections IV.2.A.(v)

(Transfers) and IV.3 (*Disposition of Surplus*) or as provided in the Agreement, the agreement or approval of a majority in interest of the Non-Operators who are eligible to vote and not an Affiliate of the Operator shall be controlling on all Non-Operators.

If Material being transferred to the Joint Property is priced under Section IV.2.A(v) – agreed-to pricing – approval of a majority in interest of the Parties who will be charged for such Material is required; provided, however, if Operator and its Affiliates own a majority in interest, approval requires vote of one other Party. If Material being transferred from the Joint Property is priced under Section IV.2.A(v) – agreed-to pricing – or being disposed of under Section IV.3 (*Disposition of Surplus*), approval of a majority in interest of Parties owning the Material is required; provided, however, if Operator and its Affiliates own a majority in interest, but less than 90%, approval requires the vote of one other Party owning an interest in the Materials.

This Section I.6.A applies to specific situations of limited duration where a Party proposes to deviate from this Accounting Procedure. Approval of a deviation under this provision does not constitute an amendment.

B. Amendments

If the Agreement contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by an affirmative vote of Operator and _____ or more Non-Operators who are not an Affiliate of the Operator, having a combined working interest of at least _____%, which approval shall be binding on all Parties. If the Parties fail to specify the percentage vote required, an amendment will require unanimous approval.

II. DIRECT CHARGES

The following costs are directly chargeable to the Joint Account:

1. RENTALS AND ROYALTIES

Rentals, royalties, rights of way, and easements paid by Operator on behalf of the Parties, for Joint Operations.

2. LABOR

A. Salaries and wages, including Operator's established incentive compensation programs that are based on pre-determined metrics and are an integral part of salary programs, other than burdens on production, for Operator's employees:

- (1) directly engaged in operating the Joint Property;
- (2) directly engaged in operating Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint Property if such costs are not included in the rates charged under Section II.6 (*Equipment and Facilities Furnished by Operator*) and are not a function covered under Section III (*Overhead*);
- (3) directly engaged in First Level Supervision of operations employees chargeable under II.2.A.(1) and (2);
- (4) directly engaged in providing Technical Services for:
 - (a) design and drafting for a Major Construction or Catastrophe project, or Environmental Project, or technical design for the drilling, completing, sidetracking, deepening, or extending of a well; or
 - (b) handling or addressing specific operating conditions or problems for:
 - (i) drilling, re-drilling, deepening, plugging back, recompleting, or sidetracking operations through the latter of completion or through plugging and abandonment if the well is a dry hole;
 - (ii) workovers, remediation, repairs, or reworks;
 - (iii) isolating, decompleting, or securing a well to protect it from operations conducted on an offset well;
 - (iv) Major Construction projects;
 - (v) Catastrophe projects;
 - (vi) Environmental Projects;

- (vii) implementing new, or non-routine updates to, HSE Laws or standards required or recommended by governmental authorities having jurisdiction; or
 - (viii) plugging and abandonment operations.
- (5) directly engaged in performing the following functions for Joint Operations:
- (i) negotiating with landowners to acquire surface and subsurface rights to build, install, and access wells and other operations infrastructure; but excluding negotiations to acquire leasehold or mineral rights;
 - (ii) meeting with landowners, regulatory personnel, or survey crews to select sites for conducting Joint Operations and related infrastructure needed to carry out operations;
 - (iii) overseeing surveying and staking of locations, and line locating;
 - (iv) acquiring water rights;
 - (v) assessing damages in the field and negotiating settlements with landowners; or
 - (vi) conducting inspections in the field to verify compliance with surface use agreements or Laws.

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

Charges under this Section II.2.A for employees who are foreign nationals may not exceed comparable compensation paid to an equivalent U.S. employee pursuant to this Section II.2 unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

- B. Operator’s cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance payments or other termination allowances. Such costs under this Section II.2.B may be charged on a “when and as-paid basis” or by “percentage assessment” on the amount of salaries and wages chargeable to the Joint Account under Section II.2.A. If percentage assessment is used, the rate shall be based on the Operator’s cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to costs chargeable to the Joint Account under Sections II.2.A and B.
- D. Personal Expenses of employees whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the expenses are incurred in connection with directly chargeable activities; provided, however, relocation costs that result from reorganization or merger of a Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).
- E. Costs incurred for operational, technical, HSE, government-mandated, or government-recommended training for employees whose salaries and wages are chargeable under Section II.2.A. This training charge includes the salary or wages and Payroll Burden and Benefits of the person being trained, training course costs, and Personal Expenses incurred for the training. The training cost will be charged to the properties directly benefiting from the training. Charges to the Joint Account for training course costs may not exceed prevailing commercial rates, where such rates are available.
- F. Operator’s current cost of established plans for employee benefits, including group life insurance, health care plans, retirement/401K contributions, stock purchase, savings plans, bonus, tuition assistance, applicable to the Operator’s labor costs chargeable to the Joint Account under Sections II.2.A and B, based on the Operator’s actual cost not to exceed the employee benefits limitation percentage most recently published by COPAS. If COPAS ceases or fails to publish an employee benefits limitation percentage, the upper limit on employee benefits will be based on a replacement index and methodology that reflects substantially the same data.
- G. Award payments to employees whose salaries and wages are chargeable under Section II.2.A to the extent such awards (i) pertain to services directly benefitting Joint Operations, (ii) are an established award program that is not part of incentive pay compensation, and (iii) are based on pre-determined metrics.

3. MATERIAL

Material purchased or furnished for use in Joint Operations, as may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The Operator shall make good faith efforts to avoid the accumulation of surplus stocks.

4. TRANSPORTATION

Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel and Material necessary for Joint Operations, subject to Section IV.2.B (*Freight*).

5. SERVICES

The cost of third-party services, equipment, and utilities used in Joint Operations, except as follows:

- (i) goods and services provided by Operator's Affiliates, which are covered by Section II.7 (*Affiliates*);
- (ii) services covered by Section II.9 (*Legal Expense*); and
- (iii) functions specifically identified in Section III (*Overhead*) as covered by overhead.

Notwithstanding the foregoing, chargeable costs include incidental administrative and other costs incurred by the third-party vendor that are an integral part of providing chargeable services.

Awards paid to contractors whose goods or services are chargeable under this Section II.5 are chargeable to the Joint Account if they pertain to services directly benefitting Joint Operations, are an established award program, and are based on pre-determined metrics. The Operator may charge the Joint Account for operational, technical, HSE, government-mandated, or government-recommended training for third parties who are chargeable under this Section II.5.

6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

The Operator shall charge the Joint Account for use of equipment and facilities furnished by Operator, including production facilities, Shore Base Facilities, Offshore Facilities, Field Offices, and Remote Technology Centers. The cost of Field Offices are chargeable only to the extent the Field Offices provide direct service to individuals who are chargeable pursuant to Section II.2.A (*Labor*), Section II.5 (*Services*), or II.7 (*Affiliates*), as applicable.

In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:

- A. Charges for use of such equipment and facilities will be made at rates commensurate with the cost of ownership and operation. Such rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment, less accumulated depreciation, not to exceed ____ % per annum; provided, however, depreciation shall not be charged when the equipment and facilities investment has been fully depreciated. The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not exceed the commercial rates currently prevailing in the area of the Joint Operations.
- B. In lieu of charges in Section II.6.A, the Operator may elect to use commercial rates prevailing in the area of the Joint Operations, less 20%. If equipment and facilities are charged under this Section II.6.B, the Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation. For automotive equipment, the Operator may elect to use rates published by COPAS. If COPAS ceases or fails to publish such rates, Operator may charge vehicle rates based on a method comparable to that most recently used by COPAS.

7. AFFILIATES

All work performed, or materials supplied, by an Affiliate of Operator shall be performed or supplied at competitive rates and terms, and in accordance with customs and standards prevailing in the industry unless otherwise agreed to by the Parties under Section I.6.A (*General Matters*).

Charges to the Joint Account for goods and services provided by an Affiliate in a Competitive Transaction may be made without approval of the Parties, unless required under the Agreement. Each of the following is considered a Competitive Transaction:

- (i) for an Affiliate that routinely conducts business with unaffiliated customers, the rates and terms charged the Joint Account are representative of rates and terms the Affiliate charges non-affiliated customers;
- (ii) Affiliate labor charged on the same basis as if provided by Operator under Section II.2 (*Labor*);
- (iii) Affiliate equipment and facilities charged on the same basis as equipment and facilities provided by Operator under Section II.6 (*Equipment and Facilities Furnished by Operator*);
- (iv) Affiliate equipment, facilities, or Materials charged at rates and terms that are competitive with unaffiliated third parties, in accordance with customs and standards prevailing in the area of Joint Operations;
- (v) charges to the Joint Account for the Affiliate's goods and services used in Joint Operations that are less than or equal to \$ _____. This threshold applies separately to each Affiliate, and it applies separately to each: (x) project or operation requiring an AFE or other authorization from Non-Operators under the Agreement or (y) calendar year, for Joint Operations not requiring an AFE or other authorization under the Agreement.

If the Parties fail to designate a dollar amount in (v), the amount deemed adopted by the Parties is the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties is \$0.

Charges to the Joint Account for goods and services provided by an Affiliate that are not considered a Competitive Transaction require approval of the Parties under Section I.6.A (*General Matters*).

Nothing in this Section II.7 authorizes charges to the Joint Account for services covered by Section II.9 (Legal Expense) or functions covered by Section III (Overhead).

The Operator may not charge the Joint Account for expediting, purchasing fees, or other mark-up for Affiliate goods and services.

8. DAMAGES AND LOSSES TO JOINT PROPERTY

Costs or expenses, other than those covered by Section III (*Overhead*), necessary to repair, replace, or abandon Joint Property resulting from damages or losses incurred, except to the extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties shall be solely liable.

9. LEGAL EXPENSE

- A. Costs incurred by Operator in procuring abstracts, fees paid to attorneys and landmen for title examinations (including preliminary, supplemental, shut-in royalty opinions, division order title opinions), and title curative work, except as limited by the Agreement. If the Agreement is silent regarding chargeability, these costs are directly chargeable to the Joint Account.
- B. Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental agencies for securing of spacing or pooling orders or any other orders necessary and proper to conduct Joint Operations, except as limited by the Agreement. If the Agreement is silent regarding chargeability, these costs are directly chargeable to Parties on whose behalf Operator is acting.
- C. Attorney's fees, court costs, and other legal costs incurred to collect amounts due under this agreement, in accordance with the Agreement and Section I.3.B (*Advances and Payments*). Recording fees to file of record liens and security interests granted under the Agreement, except as limited by the Agreement.
- D. The costs of handling, settling, or otherwise discharging litigation, claims, and liens incurred in or resulting from Joint Operations, or necessary to protect or recover the Joint Property, and which are not covered by paragraphs A, B, and C, to the extent permitted under the Agreement. Costs of the Operator's or Affiliate's legal staff or outside attorney fees and expenses, are not chargeable unless approved by the Parties pursuant to Section I.6.A (*General Matters*) or otherwise provided for in the Agreement.

10. TAXES, PERMITS AND STATUTORY FEES

All taxes, import duties, licenses, bonds, and permitting fees of every kind and nature, assessed or levied upon or in connection with Joint Operations, Joint Property, or the production therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest,

except to the extent the penalties and interest result from the Operator's gross negligence or willful misconduct.

If a Law requires the Operator to provide a service and prescribes a fee payable to the Operator for such service, such fee will be a direct charge to the Joint Account or to the affected Party or Parties, as applicable.

If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's working interest.

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

Charges or credits to the Joint Account resulting from sales or use tax audits, including extrapolated amounts and penalties and interest, are permitted, provided the Non-Operator has the right, upon request, to review the tax auditors' reports and the calculation of the extrapolated amount for the various properties which served as the basis for tax charges or credits and to determine that the correct amount of taxes was allocated to the Joint Account. If the Non-Operator is not permitted to review such documentation, the sales or use tax may not be directly charged unless the Operator can conclusively document the amount owed by the Joint Account.

11. INSURANCE

Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are conducted at locations where the Operator acts as self-insurer in regard to its workers' compensation and employers' liability insurance obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program subject to applicable state and federal workers' compensation Laws. The manual rates will be the rates published by COPAS or as provided by an actuary if COPAS ceases or fails to publish manual rates. The manual rates of the adjacent state will be used for employees performing work offshore, adjusted by the U.S. Longshore and Harbor Workers' Compensation Act or Jones Act surcharge, if applicable.

Operator shall credit the Joint Account with settlements received from insurance it carried for the benefit of the Parties. Each Party's share of the settlement will be based on its Participating Interest share of the operation giving rise to the settlement; provided, however, if such settlement is derived from insurance purchased by the Operator for fewer than all Parties, such settlement will be credited to those Parties for whom the insurance was purchased in proportion to their respective contributions toward the insurance coverage.

12. COMMUNICATIONS

Costs of acquiring, leasing, installing, operating, repairing, maintaining, dismantling, and abandoning communication facilities or systems directly supporting Joint Operations. Such costs include hardware, software, labor, field buildings that house the communication system, and communication links.

13. HEALTH, SAFETY AND ENVIRONMENT

Costs incurred for:

- (i) well containment, pollution containment, and pollution removal equipment that is in the same program area and capable of serving Joint Operations, whether used or on standby; or
- (ii) actual costs of control, cleanup, and resulting responsibilities of spills, or discharges from permitted outfalls, as deemed appropriate by Operator for prudent operations; or
- (iii) HSE assessments, surveys, or testing.

14. OTHER EXPENDITURES

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*) or in Section III (*Overhead*) and which is of direct benefit to Joint Operations and is incurred by the Operator in the necessary and proper conduct of the Joint Operations; provided, however, the charge requires approval of the Parties, pursuant to Section I.6.A (*General Matters*), if it exceeds \$ _____. If the Parties fail to designate an amount, the amount deemed adopted by the Parties is the amount established as the Operator's expenditure limit in the Agreement. If the Agreement does not contain an Operator's expenditure limit, the amount will be deemed to be \$100,000.

III. OVERHEAD

The Operator is entitled to charge overhead fees to the Joint Account in accordance with this Section as reimbursement for costs incurred by it that are not directly chargeable to the Joint Account. The overhead fees are reimbursement for the functions listed in the next paragraph and any other expenditures not classified as directly chargeable under Section II (*Direct Charges*).

Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates, or third parties, and regardless of location, include the following:

- warehousing, other than for warehouses that are jointly owned under the Agreement
- costs of conducting inventories that are not chargeable under Section V (*Inventories of Controllable Material*)
- procurement
- administration
- accounting and auditing
- pipeline nominations and scheduling
- human resources
- management
- supervision not directly chargeable under Section II.2 (*Labor*)
- legal services not directly chargeable under Section II.9 (*Legal Expense*)
- handling tax matters, other than those costs identified as directly chargeable under Section II.10 (*Taxes, Permits and Statutory Fees*)
- permitting and regulatory work not directly chargeable under the Agreement or Section II.9 (*Legal Expense*), such as: preparing and monitoring of permits or certifications; preparing regulatory reports; reviewing, interpreting, or submitting comments on, or lobbying with respect to, Laws or proposed Laws
- land and division order services that are not chargeable under the Agreement or Sections II.2 (*Labor*) or II.9 (*Legal Expense*)
- Technical Services not chargeable under Section II.2.A.(4).

Overhead charges are considered reimbursement for all costs and expenses associated with functions not directly chargeable, including the salaries or wages plus applicable Payroll Burden and Benefits, and Personal Expenses of individuals performing such functions, as well as their office and other support costs.

1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

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

☐ (Alternative 1) Fixed Rate Basis, Section III.1.A.

☐ (Alternative 2) Percentage Basis, Section III.1.B.

A. Overhead—Fixed Rate Basis

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

Drilling Well Rate per month \$ _____ (prorated for less than a full month)

Producing Well Rate per month \$ _____

(2) Application of Overhead—Drilling Well Rate shall be charged as follows:

- (a) Charges for onshore drilling wells begin on the date of initial penetration of the ground by any rig or unit to commence drilling the wellbore ("spud date") and terminate on the later of the date the drilling or completion equipment used on the well is released. Charges for offshore and inland waters drilling wells begin on the date the first drilling or completion equipment arrives on location and terminates the earlier of (i) the date the last drilling or completion equipment moves off location or (ii) the date the equipment is released. No charge may be made during suspension of drilling or completion operations for 15 or more consecutive calendar days.

- (b) Charges for any well undergoing downhole work, including abandonment, for a period of five or more consecutive workdays shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges shall be made during suspension of operations for 15 or more consecutive calendar days.
- (3) Application of Overhead—Producing Well Rate shall be charged as follows:
 - (a) An active well that is produced, injected into for recovery or disposal, or used to supply water for Joint Operations for any portion of the month qualifies for a one-well charge for the entire month, except as provided in III.1.A.(3)(b).
 - (b) With respect to a multi-completed well, each completion that is considered a separate well by the governing regulatory authority counts as a separate well for overhead purposes.
 - (c) A one-well charge will be made for the month in which plugging and abandonment operations are completed on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.A.(2)(a) or (b). This one-well charge applies even if the well qualified for producing overhead in that same month.
 - (d) A well that is capable of producing but shut-in for the entire month because of (i) an overproduced allowable, (ii) inability of a purchaser, processor, or transporter to take production, or (iii) legal restrictions on flaring or venting qualifies for a one-well charge.
- (4) The well rates will be adjusted on April 1 each year following the effective date of the Agreement; provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the rates shall be adjusted on April 1 each year following the effective date of such farmout agreement. The adjusted rates will be the initial or amended rates agreed to by the Parties, increased or decreased by the cumulative adjustment factor published by COPAS from the effective date of such rates to April 1 of the current year. If COPAS ceases or fails to publish the overhead adjustment factor, the adjustment will be based on the same methodology or a replacement index that reflects substantially the same data.

B. Overhead—Percentage Basis

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

Development Rate ____ % of the cost of development of the Joint Property.

Operating Rate ____ % of the cost of operating the Joint Property.
- (2) Application of Overhead—Percentage Basis shall be as follows:
 - (a) Subject to III.1.B.(2)(c), the Development Rate applies to the directly chargeable costs in connection with:
 - (i) drilling, redrilling, sidetracking, plugging back, recompleting or deepening of a well;
 - (ii) a well undergoing downhole work for a period of five or more consecutive workdays;
 - (iii) abandonment and restoration of a well not completed as a producer;
 - (iv) construction or installation of fixed assets, the expansion of fixed assets, and any project clearly discernible as a fixed asset, other than a project that qualifies for overhead under Sections III.2 (*Overhead—Major Construction and Catastrophe*) or III.3 (*Overhead—Environmental Project*); and
 - (v) activities in preparation for any of the above operations.
 - (b) The Operating Rate applies to all other directly chargeable costs in connection with Joint Operations, except those subject to Sections III.1.B.(1)(a), III.1.B.(2)(c), Section III.2 (*Overhead – Major Construction and Catastrophe*), or Section III.3 (*Overhead – Environmental Project*).
 - (c) The Development Rate and Operating Rate do not apply to the following:
 - (i) legal fees covered by Section II.9 (*Legal Expense*);
 - (ii) Material salvage credits;

- (iii) costs covered by Section II.1 (*Rentals and Royalties*);
- (iv) the value of injected substances purchased for secondary or tertiary recovery;
- (v) property taxes, ad valorem taxes, and other taxes and assessments levied, assessed, and paid upon the mineral interest in and to the Joint Property;
- (vi) payments to or receipts from third parties in settlement of claims;
- (vii) production handling fees, infrastructure access fees, or operating and maintenance fees paid for production handling facilities not owned by the Joint Account;
- (viii) deferred production payments paid by Operator on behalf of the Parties;
- (ix) premiums for insurance acquired for the Joint Account, other than workers' compensation and employers' liability insurance;
- (x) costs in excess of \$5,000,000 cumulative per well operation, paid to one or more marine well containment vendors to have equipment available on a stand-by basis in case of an incident;
- (xi) guarantee deposits; and
- (xii) fines and penalties.

2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

The Operator may charge an overhead fee to reimburse it for costs not directly chargeable under Section II (*Direct Charges*), which it incurs in connection with a Major Construction project that costs more than the Operator's expenditure limit under the Agreement, or for any Catastrophe regardless of the amount. If the Agreement does not contain an expenditure limit, Major Construction Overhead will be assessed for any single Major Construction project costing more than \$100,000 gross. The overhead rates for Major Construction and Catastrophe projects are:

____% of the first \$100,000; plus
 ____% of the next \$900,000; plus
 ____% of costs in excess of \$1,000,000.

The rates apply to the total gross cost charged under Section II (*Direct Charges*) for each Major Construction or Catastrophe project. To calculate Major Construction Overhead, the components of a single Major Construction project must be aggregated, and the cost of drilling and downhole well operations and cost of purchasing and installing pumping units and downhole artificial lift equipment are excluded.

For Catastrophes, the overhead rates apply to the total gross costs chargeable under Section II (*Direct Charges*), incurred in responding to and restoring the Joint Property and environment to the equivalent condition that existed prior to the Catastrophe. The rates apply separately to each Catastrophe. For the purposes of calculating Catastrophe overhead, the cost of drilling relief wells, substitute wells, or conducting other well operations directly resulting from the Catastrophe are included.

Notwithstanding anything to the contrary in the foregoing, Major Construction and Catastrophe overhead rates do not apply to the following:

- (i) legal fees covered by Section II.9 (*Legal Expense*);
- (ii) Material salvage credits;
- (iii) payments to and receipts from third parties in settlement of claims;
- (iv) premiums for insurance acquired for the Joint Account, other than workers' compensation and employers' liability insurance;
- (v) guarantee deposits; and
- (vi) fines and penalties.

Expenditures that qualify for Major Construction or Catastrophe Overhead do not qualify for overhead under any other overhead provisions.

3. OVERHEAD – ENVIRONMENTAL PROJECT

Operator may either negotiate an overhead rate or charge the Joint Account the following rates as reimbursement for costs not directly chargeable under Section II (*Direct Charges*), which it incurs in connection with an Environmental Project that costs more than the Operator's expenditure limit under the Agreement. If the Agreement does not contain an expenditure limit, Environmental Project overhead will be assessed for any single Environmental Project costing more than \$100,000 gross. Expenditures that qualify for Environmental Project Overhead do not qualify for overhead under any other overhead provision.

The overhead rates for an Environmental Project are:

____ % of the first \$ 100,000; plus

- 1 ___ % of the next \$ 900,000; plus
2 ___ % of costs exceeding \$ 1,000,000.

3
4 Environmental Project overhead rates do not apply to the following:

- 5 (i) legal fees covered by Section II.9 (Legal Expense);
6 (ii) Material salvage credits;
7 (iii) payments to and receipts from third parties in settlement of claims;
8 (iv) premiums for insurance acquired for the Joint Account, other than workers' compensation and
9 employers' liability insurance;
10 (v) guarantee deposits; and
11 (vi) fines and penalties.

12 13 **4. AMENDMENT OF OVERHEAD RATES**

14
15 The overhead rates provided for in this Section III may be amended in accordance with Section I.6.B
16 (*Amendments*) if, in practice, they are found to be insufficient or excessive.

17 18 **IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS**

19
20 The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits
21 for direct purchases, transfers, and dispositions. The Operator shall provide all Material for use in the
22 conduct of Joint Operations; however, Material may be supplied by the Non-Operators at the Operator's
23 option. Material furnished by any Party shall be furnished without any express, implied, or statutory
24 warranties. The Operator shall maintain documentation to support charges and credits for Materials.

25 26 **1. DIRECT PURCHASES**

27
28 Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction
29 of all discounts taken. The Operator shall make good faith efforts to take discounts offered by suppliers,
30 but will not be liable for failure to take discounts except to the extent such failure was the result of the
31 Operator's gross negligence or willful misconduct. A direct purchase is deemed to occur when an
32 agreement is made between an Operator and a third party to acquire Material specifically for Joint
33 Operations. Material provided by the Operator under vendor stocking programs, where the initial use
34 is for Joint Operations and ownership of the Material does not pass from the manufacturer, distributor,
35 or agent until usage, is considered a direct purchase. If Material is found to be defective or is returned
36 to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account
37 within 60 days after the Operator has received adjustment from the manufacturer, distributor, or agent.

38 39 **2. TRANSFERS**

40
41 A transfer is determined to occur when the Operator (i) furnishes Material from a storage facility or
42 from another operated property, (ii) has assumed liability for the storage costs and changes in value,
43 and (iii) has ownership of the transferred Material. Similarly, the removal of Material from the Joint
44 Operations site to a storage facility or to another operated property is also considered a transfer;
45 provided, however, Material that is moved from the Joint Operations site to a storage location for safe-
46 keeping pending disposition may remain charged to the Joint Account and is not considered a transfer.
47 Material shall be disposed of in accordance with Section IV.3 (*Disposition of Surplus*) and the
48 Agreement.

49 50 **A. PRICING**

51
52 The pricing of Material transferred should generally reflect the market value on the date of transfer.
53 When higher than specification grade or size Material is used in Joint Operations, the Operator
54 shall charge the Joint Account at the equivalent price for well design specification Material, unless
55 such higher specification grade or sized Material is approved by the Parties pursuant to Section
56 I.6.A (*General Matters*). Transfers of Material will be priced using one of the following pricing
57 methods for new Material; provided, however, the Operator shall use consistent pricing methods
58 and not alternate among methods for the purpose of choosing the method most favorable to the
59 Operator for a specific transfer:

- 60
61 (i) prices published in COPAS' Computerized Equipment Pricing System (CEPS), including
62 the transportation cost from manufacturer to rail point as defined in Section IV.2.B
63 (Freight);
64
65 (ii) a price paid by the Operator in the 12-month period prior to the transfer for like Material
66 in the vicinity of the Joint Operations site;

- (iii) a price quote from a vendor that reflects a current realistic acquisition cost;
- (iv) the weighted average price paid by Operator for such Material purchased in the vicinity of the Joint Operations site; or
- (v) a price agreed to pursuant to Section I.6.A (*General Matters*).

B. FREIGHT

- (1) Freight for oil country tubular goods (OCTG) and line pipe will be charged as follows:
 - (a) actual freight costs paid by the Operator to a third party to move the OCTG or line pipe from the manufacturer to the shore base, warehouse or fabrication yard, or other operations site;
 - (b) freight rates provided by CEPS, which includes loading and unloading costs, for moving the OCTG or line pipe, as applicable, from the manufacturer to the rail point nearest the Joint Operations site; or
 - (c) for freight provided by Operator or its Affiliate, the freight costs determined in accordance with Section II.6 (*Equipment and Facilities Furnished by Operator*) or Section II.7 (*Affiliates*), as applicable.
- (2) Freight for Material other than OCTG and line pipe will be charged as follows:
 - (a) actual freight costs paid by the Operator to a third party to move the Material; or
 - (b) for freight provided by Operator or its Affiliate, the freight costs determined in accordance with Section II.6 (*Equipment and Facilities Furnished by Operator*) or Section II.7 (*Affiliates*), as applicable.

(3) Other Freight Provisions

Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the rail point or staging area nearest to the Joint Operations site to the Joint Operations site are in addition to the foregoing, and directly chargeable to the Joint Account.

Notwithstanding the foregoing, if the actual freight charges associated with redeployment of Operator's surplus (i) from another property to the Joint Operations site or (ii) between the warehouse and the Joint Operations site exceeds the excluded amount most recently published by COPAS, the charge to the Joint Account may not exceed the cost of moving such surplus between the nearest stocking point and the Joint Operations site. Accessorial charges such as loading and unloading costs, split pick-up costs, detention, call-out charges, and permit fees are excluded when determining whether the actual freight costs exceed the excluded amount published by COPAS. If COPAS ceases or fails to publish an excluded amount, the excluded amount will be the amount last published by COPAS, adjusted annually by the same factor used to adjust overhead rates under Section III.1.A.(4).

Transportation of Material between the Joint Operations site and another property, or from the Operator's warehouse or other storage point to the Joint Operations site, shall be charged to the receiving property. Transportation of Material from the Joint Operations site to a warehouse or other storage point shall be charged to the sending Joint Account.

C. TAXES

Sales and use taxes shall be added to the Material transfer price using either the method contained in CEPS or the applicable tax rate in effect for the Joint Property at the time and place of transfer. In either case, the Joint Account will be charged or credited at the rate that would have applied had the Material been a direct purchase.

D. CONDITION

- (1) Condition A – New and unused Material in sound and serviceable condition will be valued at 100% of the price determined in Section IV.2.A (*Pricing*), plus freight and taxes as provided in Sections IV.2.B (*Freight*) and IV.2.C (*Taxes*). All refurbishing costs required to repair damages will be borne by the divesting property. Notwithstanding the foregoing, Material charged in error, such as a miscoding, will be credited as charged, with no gain or loss.
- (2) Condition B – Used Material in sound and serviceable condition and suitable for reuse without reconditioning will be valued by multiplying the price determined in Section IV.2.A (*Pricing*) by 75%, plus freight and taxes as provided in Sections IV.2.B (*Freight*) and IV.2.C (*Taxes*).

Notwithstanding the foregoing, Material that was charged to the Joint Account as used Material and placed in service for Joint Operations, will be credited at the price determined in Section IV.2.A (*Pricing*) multiplied by 65%, plus freight and taxes as provided in Sections IV.2.B (*Freight*) and IV.2.C (*Taxes*). Notwithstanding the foregoing, Material charged in error, such as a miscoding, will be credited as charged, with no gain or loss.

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

- (3) Condition C – Material that is not in sound and serviceable condition and not suitable for its original function until after reconditioning will be valued by multiplying the price determined in Section IV.2.A (*Pricing*) by 50%, plus freight and taxes as provided in Sections IV.2.B (*Freight*) and IV.2.C (*Taxes*).

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

- (4) Condition D – Material that is obsolete or no longer suitable for its original purpose but useable for some other purpose shall be charged or credited at a price commensurate with its intended use.
- (5) Condition E – Junk shall be priced at prevailing scrap value prices.

E. OTHER PRICING PROVISIONS

(1) Preparation Costs

Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator in making Material serviceable, including inspection, third-party surveillance services, and other services, will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services. New coating or wrapping are considered a component of the Material and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or credits may be made for used coating or wrapping. Preparation costs incurred will not be credited for Material transferred from the Joint Account unless those services permanently alter the Material and provide full value to any future receiving property.

(2) Loading and Unloading Costs

Actual costs incurred in loading and unloading related to the movement of the Material to be used for Joint Operations will be charged to the Joint Account in accordance with Section II (*Direct Charges*); provided, however, Operator may charge the rates published by COPAS for loading or unloading tubular goods when Operator uses its own equipment and employees. If COPAS ceases or fails to publish rates for loading and unloading tubular goods, the rate will be the rate last published by COPAS, adjusted annually by the same factor used to adjust overhead rates under Section III.1.A.(4).

3. DISPOSITION OF SURPLUS

Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but is not required to purchase, the interest of the Non-Operators in surplus Material.

A disposition is the relinquishment of ownership of the Material from the Joint Account to either a third party, a Non-Operator, or to the Operator. The Operator should make good faith efforts to dispose of surplus Material within 12 months.

Disposal of surplus Materials shall be made in accordance with the terms of the Agreement. If the Agreement contains no provisions governing disposal of surplus Material, this provision will apply.

Operator may dispose of Material without notice or approval of the Parties if disposed of under one of the following methods:

- (i) Material that was charged to the Joint Account through a direct purchase is returned to the vendor;
- (ii) Condition A, B, or C Material is purchased by Operator or its Affiliate based on the pricing methods set forth in Section IV.2 (Transfers);

- (iii) Condition D or E Material is sold to a third party that is not an Affiliate of Operator under procedures normally utilized by Operator;
- (iv) Sale, other than those under (i) or (iii), to a third party that is not an Affiliate of Operator and the market value is less than or equal to the expenditure limit in the Agreement, or \$100,000 if the Agreement does not have an expenditure limit; or
- (v) Material in any condition that is sold at or above market value.

All other dispositions require approval of Parties owning the Material (“Owners”) pursuant to Section I.6.A (*General Matters*). If approval is required, Operator shall give written notice to the Owners of the proposed disposition with sufficient price, material specifications, and condition information to make an informed decision. The Owners have 48 hours, exclusive of Saturdays, Sundays, and federal holidays, after receipt of notice to respond. Failure to respond within the specified time is deemed approval of the proposed disposition.

Operator shall credit the Joint Account for net proceeds received from the buyer. Costs incurred by Operator in disposing of the Materials that are not considered overhead under Section III (*Overhead*) will be borne by the Owners. Operator shall make good faith efforts to credit the Joint Account for proceeds from the disposal of surplus Material within 60 days after (i) sale to Operator or its Affiliate or (ii) payment is received from an unaffiliated third party for the Material, as applicable.

4. SPECIAL PRICING PROVISIONS

A. SHOP-MADE ITEMS

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

B. MILL REJECTS

Mill rejects purchased as limited-service casing or tubing will be priced at the price paid, if a direct purchase for the Joint Account, or at current market value commensurate with its use in the case of a transfer in accordance with Section IV.2 (*Transfers*).

V. INVENTORIES OF CONTROLLABLE MATERIAL

The Operator shall maintain records of Controllable Material charged to the Joint Account with sufficient detail to perform physical inventories.

Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable Material shall be made within 12 months following the taking of the inventory or receipt of Non-Operator inventory report, or within the time prescribed for adjustments under Section I.4 (*Adjustments*), whichever is later. Charges and credits for overages or shortages will be valued for the Joint Account in accordance with Section IV.2 (*Transfers*) using Condition B prices in effect on the date of physical inventory unless the Operator or inventorying Parties can provide sufficient evidence another Material condition applies.

1. DIRECTED INVENTORIES

Operator shall perform physical inventories upon written request of a majority in working interests of the Non-Operators (hereinafter, “directed inventory”); provided, however, Non-Operators cannot require Operator to perform directed inventories more frequently than once every five years. Operator shall commence directed inventories within 180 days after receiving written notice that a majority in interest of the Non-Operators has requested the inventory. All Parties shall be governed by the results of any directed inventory.

Expenses of directed inventories will be borne by the Joint Account; provided, however, costs associated with any post-report follow-up work in settling the inventory will be absorbed by the Party incurring such costs. Expenses of directed inventories may include the following:

- (i) A per diem rate, representative of actual salaries, wages, and Payroll Burden and Benefits of the persons performing the inventory, or a rate agreed to by the Parties pursuant to Section I.6.A

1 (General Matters). The per diem rate will also be applied to a reasonable number of days for pre-
 2 inventory work and report preparation.

3
 4 (ii) Reasonable Personal Expenses for the inventory team.

5
 6 **2. NON-DIRECTED INVENTORIES**

7
 8 **A. OPERATOR INVENTORIES**

9
 10 The Operator may conduct physical inventories not required by Non-Operators or a government
 11 entity at its discretion. The expenses of conducting such Operator-initiated inventories may not be
 12 charged to the Joint Account.

13
 14 **B. NON-OPERATOR INVENTORIES**

15
 16 Subject to the terms of the Agreement, a Non-Operator may conduct a physical inventory at
 17 reasonable times at its sole cost and risk after giving the Operator at least 90 days' prior written
 18 notice. The Non-Operator shall furnish the Operator its written report within 90 days of completing
 19 the inventory field work.

20
 21 **C. SPECIAL INVENTORIES**

22
 23 The expense of conducting inventories, other than those described in Sections V.1 (*Directed*
 24 *Inventories*), V.2.A (*Operator Inventories*), or V.2.B (*Non-Operator Inventories*), shall be borne
 25 by the Party requesting such inventory; provided, however, inventories required due to a change of
 26 Operator or that are required by a government authority shall be charged to the Joint Account in
 27 the same manner as described in Section V.1 (*Directed Inventories*).