

LEGISLATIVE SUMMARY SHEET

Tracking No. 0038-20

DATE: February 20, 2020

TITLE OF RESOLUTION: PROPOSED NAVAJO NATION COUNCIL RESOLUTION; AN ACTION RELATING TO RESOURCES AND DEVELOPMENT COMMITTEE, NAABIK'ÍYÁTI' COMMITTEE AND THE NAVAJO NATION COUNCIL; APPROVING THE RATTLESNAKE AND TOCITO DOME NORTH OIL AND GAS EXPLORATION AND DEVELOPMENT OPERATING AGREEMENTS BETWEEN THE NAVAJO NATION AND TACITUS, LLC FOR CERTAIN TRUST LANDS ON THE NAVAJO NATION (SAN JUAN COUNTY, NEW MEXICO)

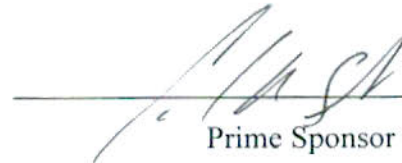
PURPOSE: The purpose of the resolution is to approve the Rattlesnake and Tocito Dome North Oil and Gas Exploration and Development Operating Agreements between the Navajo Nation and Tacitus, LLC for certain trust lands on the Navajo Nation (San Juan County, New Mexico). It will also direct all relevant Navajo Nation programs and offices to establish a Community Reinvestment Fund to be governed by a fund management plan developed by the Resources and Development and approved by the Budget and Finance Committees of the Navajo Nation Council.

This written summary does not address recommended amendments as may be provided by the standing committees. The Office of Legislative Counsel requests each Council Delegate to review each proposed resolution in detail.

5-DAY BILL HOLD PERIOD: None
Website Posting Time/Date: 5:46pm 02-20-20
Posting End Date: 02-25-20
Eligible for Action: 02-26-20

Resource & Development Committee
Thence
Naabik'íyáti' Committee
Thence
Navajo Nation Council

PROPOSED NAVAJO NATION COUNCIL RESOLUTION
24th NAVAJO NATION COUNCIL - Second Year, 2020


Prime Sponsor

TRACKING NO. 0038-20

AN ACTION

RELATING TO RESOURCES AND DEVELOPMENT COMMITTEE,
NAABIK'ÍYÁTI' COMMITTEE AND THE NAVAJO NATION COUNCIL;
APPROVING THE RATTLESNAKE AND TOCITO DOME NORTH OIL AND GAS
EXPLORATION AND DEVELOPMENT OPERATING AGREEMENTS BETWEEN
THE NAVAJO NATION AND TACITUS, LLC, FOR CERTAIN TRUST LANDS
ON THE NAVAJO NATION (SAN JUAN COUNTY, NEW MEXICO)

BE IT ENACTED:

SECTION ONE. AUTHORITY

- A. The Navajo Nation Council is the governing body of the Navajo Nation. 2
N.N.C. §102 (A).
B. The Naabik'íyáti' Committee is assigned proposed resolutions that require final
action by the Navajo Nation Council. 2 N.N.C. § 164(A)(9).
C. The Resources and Development Committee shall make recommendations to the
Navajo Nation Council for final approval for mineral agreements. 2 N.N.C. §
501(B)(4)(a).

SECTION TWO. FINDINGS

- A. The Tsé Al Náozt'í and Gadii'ahi/To'koi Chapters have passed resolutions in
support of the Rattlesnake and Tocito Dome North Oil and Gas Exploration and

1 Development Operating Agreements between the Navajo Nation and Tacitus, LLC,
2 which are herein attached as Exhibit "3."

- 3 B. The Official Executive Review document will be provided to the Navajo Nation
4 Council when the legislation is considered by the Navajo Nation Council.

5
6 **SECTION THREE. APPROVAL**

- 7 A. The Navajo Nation hereby approves the Rattlesnake and Tocito Dome North Oil
8 and Gas Exploration and Development Operating Agreements between the Navajo
9 Nation and Tacitus, LLC for certain trust lands on the Navajo Nation (San Juan
10 County, New Mexico), herein attached as Exhibit "1" and Exhibit "2", respectively.

- 11 B. The Navajo Nation hereby approves the following payments individually contained in each
12 of the Operating Agreements: A Bonus Payment of \$420,625.00 (\$125/acre) for 3,365
13 acres in the Tocito Dome North operating area, \$661,125.00 (\$125/acre) for 5,289 acres in
14 the Rattlesnake operating area, and an annual Navajo Scholarship of \$5,000.

- 15 C. Three-quarters of one percent (0.75%) of the Gross Proceeds generated from the sale of
16 helium gas by Tacitus, LLC shall be calculated for deposit into a Community Reinvestment
17 Fund that shall be established by the Office of the Controller. The amount set aside for the
18 Community Reinvestment Fund shall be deducted from the royalty payments made by
19 Tacitus, LLC to the Navajo Nation under the operating agreements.

20
21 **SECTION FOUR. DIRECTIVE FOR ESTABLISHMENT OF COMMUNITY**
22 **REINVESTMENT FUND AND FUND MANAGEMENT PLAN**

23 All relevant Navajo Nation programs and offices are hereby directed to establish a
24 Community Reinvestment Fund, which shall be governed by a fund management plan
25 developed by the Resources and Development and approved by the Budget and Finance
26 Committees of the Navajo Nation Council.



Contract No. _____

OPERATING AGREEMENT BETWEEN

THE NAVAJO NATION

AND

TACITUS, LLC

RATTLESNAKE

Located in
San Juan County, New Mexico

THIS AGREEMENT ("Agreement") is made and entered into this ____ day of _____, 2020, within the Navajo Nation at Window Rock, Navajo Nation (AZ), by and between the Navajo Nation (or the "Nation") and Tacitus, LLC (hereinafter referred to as "Operator" or "Tacitus", as appropriate) (herein collectively referred to as the "Parties" or individually as "Party").

WITNESSETH

WHEREAS, the United States of America is Trustee for the Nation and as such holds legal title to all lands and mineral rights of the Nation within the lands described in this Agreement within the Contract Area; and

WHEREAS, the Nation holds equitable title to all lands and mineral rights described in this Agreement; and

WHEREAS, the Nation warrants that the lands covered by this Agreement are not presently subject to any oil and gas leases, coalbed gas leases, coal leases or other agreements for the exploration and development of oil, gas, coalbed gas, coal, or other Hydrocarbons; and

WHEREAS, the Nation desires to explore, develop, produce, and sell oil, gas, coalbed gas and other Hydrocarbons which may be found in the lands covered by this Agreement; and,

NOW, THEREFORE, in consideration of the terms, conditions, promises and agreements as contained herein and to be kept and performed, the parties hereto agree as follows:

ARTICLE 1 DEFINITIONS

1.1 Affiliate means any entity as defined in 30 C.F.R. § 1206.51 or any applicable substitute future regulations.

1.2 Commencement of Drilling means the spudding of a well with a rig capable of drilling to the desired geological formation depth.

1.3 Contract Area means all of the land located within the boundaries of the Navajo Nation in San Juan County, New Mexico as fully described in Exhibit "A" (Map of Contract Area) and Exhibit "A-1" (Metes and Bounds).

1.4 Earning Well means each exploration well and development well drilled and completed under this Agreement capable of producing Hydrocarbons in paying quantities.

1.5 Effective Date means the date when this Agreement is approved by the Secretary, following execution by Tacitus and the Navajo Nation.

1.6 Execution Date means the date when this Agreement is executed by Tacitus and by the Navajo Nation following approval of the Agreement by the Navajo Nation Council in accordance with Navajo Nation laws, policies and regulations.

1.7 Hydrocarbons means naturally occurring hydrocarbon oil, gas, casinghead gas, coal bed methane, distillate, condensate, liquid hydrocarbons and each of their respective constituent vapors and liquids, and including without limitation, helium and carbon dioxide, and all other non-hydrocarbon gases within the Contract Area. Hydrocarbons do not include coal matrix material or the in-situ synthetic gasification of coal matrix material.

1.8 Minerals Department means the Navajo Nation Minerals Department, or its successor agency.

1.9 Operator means Tacitus, and its successors and assigns, which has primary responsibility for maintaining well operations and complying with Navajo and Federal laws and regulations.

1.10 Production in Paying Quantities means that amount of production that would return a profit, however small, to Operator over lifting or production costs, but excluding drilling, completion and recompletion, reworking or equipment costs.

1.11 Secretary means the Secretary of the Interior of the United States of America or his duly authorized representative.

1.12 Spacing Unit means the area of land allocated to a well for purposes of spacing producing wells designated by the appropriate Navajo or Federal authority.

1.13 Unit means a contiguous land area or block of land within which there is more than one owner of the oil and gas rights. Said area or block of land is operated for the production of oil and gas according to the terms and conditions of a Unitization Agreement entered into by the owners of the oil and gas rights.

1.14 Unitization Agreement means an agreement for conducting oil and gas operations over an area or block of land with separately owned interests.

ARTICLE 2 EXPLORATION AND PRODUCTION RIGHTS

2.1 The Nation hereby grants to the Operator the exclusive right, privilege and obligation to explore for, develop, produce and sell Hydrocarbons from any geologic formation from the surface of the earth downward to the center of the earth within the Contract Area during the term of this Agreement, except as otherwise limited in this Agreement. Notwithstanding the foregoing sentence, the Nation shall retain the right to conduct or authorize any third party to conduct seismic surveys on or through the Contract Area without compensation to the Operator, upon reasonable notice; provided however that any such seismic survey work shall not interfere with Operator's activities in the Contract Area or with any other rights and interests the Operator may have that are associated with Operator's activities in the Contract Area; and provided further that the Nation or its third party contractor shall abide by all Operator's reasonable safety requirements when conducting survey work in the Contract Area.

2.2 The Nation further grants the Operator the right during the Primary Term to construct, maintain and use within the Contract Area all works, buildings, plants, waterways, roads, telegraph and telephone lines, utility lines, pipelines, reservoirs, tanks, pumping stations, or other structures necessary or desirable to effectuate the purposes of this Agreement, along with the right of ingress and egress to and from the Contract Area and rights-of-way for passage over the Contract

Area, and consents hereby to grant by the United States of all rights-of-way (ROWs) consistent with the terms of this Agreement required for such construction, maintenance, use, and ingress or egress, subject to Operator's obtaining all other permits and approvals required by the laws of the Nation and by applicable Federal regulations. The consent provided in this Section 2.2 includes, without limitation, consent to the (i) grant of any such ROWs on lands within the Contract Area held by production (HBP) following the Primary Term; and (ii) following the Primary Term, for ingress to or egress from facilities on lands HBP within the original Contract Area. A ROW granted in accordance with this Section 2.2 shall survive termination of the Primary Term if the ROW supports Contract Area operations on acreage HBP, in accordance with Section 3.2. Any ROWs granted to Operator shall be subject to payment of ROW compensation (except the ROWs granted within the Contract Area and rights of ingress and egress, any of which require no additional ROW compensation), normal surface damage assessments and any application filing fee.

2.3 If Operator deems it appropriate to form a Unit with other adjacent operators/lessees outside the Contract Area, the Nation and the Secretary must first approve the Unitization Agreement. Any Unitization Agreement or Unit Operating Agreement proposed or submitted for approval by Operator shall not be inconsistent with the provisions of this Agreement and will not be valid unless approved by the Nation and the Secretary.

2.4 The Nation reserves the right to occupy and lease the Contract Area for any lawful purpose not inconsistent with Operator's rights under this Agreement.

ARTICLE 3 TERM OF AGREEMENT

3.1 Primary Term. The Primary Term of this Agreement shall be five (5) years from the Effective Date. At the end of the Primary Term, all lands not HBP pursuant to paragraph 3.2 shall automatically be relinquished by Operator at the completion of the abandonment and reclamation, if required, from the Contract Area and from this Agreement and the Operator shall have no further rights or claims to the relinquished lands.

3.2 Production Term. At the expiration of the Primary Term, this Agreement shall terminate as to all lands within the Contract Area which are not HBP because those lands are located outside of a designated producing well spacing acreage. This Agreement shall continue in full force and effect for a full term of twenty (20) years from the Effective Date provided there is Hydrocarbon Production in Paying Quantities from HBP acreage. During the Production Term any acreage not producing Hydrocarbons in paying quantities for a period of thirty (30) days, unless Operator within 30 days has commenced and thereafter conducts with due diligence the necessary maintenance, mechanical or other work or repairs on any well or associated facilities, shall be subject to termination at the discretion of the Minerals Department due to non-production. Operator shall execute all instruments deemed necessary by the Nation to effectuate the release of such lands in a timely manner.

3.3 Obligations After Termination/Expiration. The termination or expiration of this Agreement as to all or part of the Contract Area shall not release Operator from any obligation to the Nation arising prior to termination or expiration, including but not limited to the obligation to plug, reclaim and abandon any well(s) not capable of producing Hydrocarbons as of the date of termination or expiration, unless otherwise requested in writing by the Minerals Department.

ARTICLE 4 PAYMENTS TO THE NATION

4.1 Minimum Bonus. In consideration for the rights granted to Operator in this

Agreement, a Bonus payment of \$661,125.00 (\$125/acre) 5,289 acres will be paid to the Nation by Operator within ten (10) days following the Execution Date. A land survey shall be conducted by Operator after execution of this Agreement and if such survey concludes that the acreage covered under this Agreement is greater, the bonus payment shall be increased to incorporate the additional acreage.

4.2 Rental Payments. Beginning one year after the Execution Date and annually thereafter, the Operator will pay the Nation an Advance Annual Rental Payment of ten dollars (\$10.00) for each acre in the Contract Area that is not relinquished. Advance Annual Rental payments will be made by Operator within ten (10) days after each anniversary of the Execution Date and shall include a complete listing and the location of producing oil and gas wells and the unrelinquished acreage, if any, within the Contract Area on that anniversary of the Execution Date. Advance Annual Rental Payments are recoupable during Primary and Production Terms against any royalty payments during the following production year.

4.3 Oil Royalty. Unless the Nation is taking its oil RIK, the Operator shall pay the Nation on a monthly basis a variable royalty on all oil (including without limitation, all condensate) produced and sold from the Contract Area. The Operator will use, if available, the index price approved by the United States Office of Natural Resources Revenue (ONRR) for the field or area (ONRR Oil Index Price) to determine the monthly weighted average oil price (\$/Barrel) and the corresponding royalty rate percentage from Exhibit "B", attached hereto and incorporated herein, to determine the monthly royalty rate percentage. If the ONRR Oil Index Price is no longer determined, a comparable index will be used as agreed upon by the Minerals Department and Operator. If the Nation is taking its oil RIK pursuant to Section 4.5, from the Contract Area, monthly RIK volume will be determined by using the monthly royalty rate percentage described above times the total volume of oil produced from the Contract Area. If the Nation is not taking its RIK pursuant to Section 4.5 from the Contract Area, the value for royalty purposes for the monthly crude oil will be determined pursuant to the provisions of 30 C.F.R. Chapter XII, Subchapter A, Part 1206, Subpart B or any applicable substitute future regulations.

4.4 Gas Royalty. Unless the Nation is taking its gas RIK, The Operator shall pay the Nation on a monthly basis a variable royalty on all natural gas (including carbon dioxide and nitrogen, but excluding helium and gases produced and sold in association therewith), produced and sold from the Contract Area. The Operator will use, if available, the index price for natural gas approved by ONRR for the field or area (ONRR Gas Index Price) to determine the monthly weighted average gas price (\$/MMBtu) and corresponding royalty rate percentage specified in the table of monthly weighted average prices and rate attached as Exhibit "C". If the ONRR-Gas Index Price is no longer determined, a comparable index will be used as agreed upon by the Minerals Department and Operator. If the Nation is taking its gas RIK pursuant to Section 4.5, from the Contract Area, monthly RIK volume will be determined by using the monthly royalty rate percentage for the weighted average of gas produced and sold in the month times the total volume of gas produced from the Contract Area. If the Nation is not taking its gas RIK pursuant to Section 4.5 from the Contract Area, the value for royalty purposes for the monthly natural gas will be determined pursuant to the provisions of 30 C.F.R. Chapter XII, Subpart A, Part 1206, Subpart E or any applicable substitute future regulations.

4.4.1 Helium Royalty. Upon the determination of Gross Proceeds pursuant to this Section 4.4.1, the Operator shall pay the Nation on a monthly basis a variable royalty on the helium produced and sold from the Contract Area at the rates specified in the table of monthly weighted average prices and corresponding royalty rate percentage attached as Exhibit "D". Gross Proceeds for purposes of this Section 4.4.1 are the Gross Proceeds as defined under 30 C.F.R. Chapter XII, Subpart A, Part 1206, Subpart E less the monthly Community Reinvestment Fund payments provided for in Section 4.13. If the Nation is taking its helium RIK pursuant to Section 4.5 from the

Contract Area, monthly RIK volume will be determined at the wellhead by using the monthly royalty rate percentage for the weighted average of gas produced in the month described above pursuant to Exhibit "D" times the total volume of helium produced from the Contract Area. If the Nation is not taking its helium RIK pursuant to Section 4.5 from the Contract Area, the Gross Proceeds for monthly helium royalty purposes will be the total monies and other consideration accruing to the Operator for the disposition of the helium sold during such month by reference to Operator's arm's length purchase and sale agreements for such helium.

4.5 Taking RIK. The Nation may elect to take its share of Hydrocarbon production in kind as follows:

4.5.1 For oil and/or natural gas, initiation of RIK upon sixty (60) days written notice to the Operator or from the time of initial production if the Nation notifies the Operator in advance and to cancel RIK, the Nation shall give sixty (60) days written notice to the Operator if the Nation decides not to continue taking its share of oil and/or natural gas production in kind; or

4.5.2 For Helium, initiation of RIK upon one hundred and twenty (120) days written notice to the Operator or from the time of initial production if the Nation notifies the Operator in advance and shall give sixty (60) days written notice to the Operator if the Nation decides not to continue taking its share of helium production in kind.

4.6 Method and Timing of Payment. All Hydrocarbon royalty payments to the Nation under this Agreement, excluding Helium royalty payments, shall be due and payable by the 20th day of the month following the month during which the produced product(s) were sold or taken in kind. Any such payments not timely paid by the Operator shall bear interest from the date due to the date of payment at the rate then being assessed by the Navajo Nation Minerals Audit Program or its successor program or ONRR or its successor agency, as applicable. The parties acknowledge that the sale and payment to Operator for Helium production and related gases, including RIK Helium sales, may not occur in the same month as the month in which such gases are produced. Consequently, the parties acknowledge that the payment of royalties for such gases shall be made only in the month following Operator's receipt of payment for the sale of such gases, as long as such sale does not occur later than sixty (60) days after production.

4.7 Late Payments. Any payments including but without limitation, bonus, royalty, rental and damages, not received by the Nation in a timely manner from the Operator shall bear interest and applicable penalty from the date due to the date of payment at the rate then being assessed by ONRR or by the Nation, as applicable.

4.8 Payment of Navajo Nation Taxes. Operator shall pay when due all applicable Navajo Nation taxes, provided that Operator may assert any objections it may have to the applicability or amount of any such tax in accordance with the Uniform Tax Administration Statute, as amended, 24 N.N.C. § 101 *et seq.*

4.9 Point of Gas Measurement. For purposes of calculating the Nation's royalty, natural gas volumes shall be measured at the wellhead meter and shall be tested at the wellhead meter for BTU content.

4.10 Audit and Inspection. Operator shall maintain detailed, comprehensive and accurate accounting records necessary to justify calculation of all payments due to the Nation. In addition to the monthly reports of operations and sales required in this Agreement, upon written request of the Minerals Department, Operator shall furnish to the Nation an annual operating statement containing an accounting of operations, costs, and expenses as reviewed or audited by an

independent accounting firm which shall be subject to further audit by the Nation or the Secretary at their sole cost and expense. The Nation or the Secretary may at their sole cost and expense audit the quantity and quality of production and sales at any time upon reasonable notice to the Operator. Any and all records kept by or for Operator related to performance of this Agreement, including but not limited to records of production and sale and contracts of sale, shall be available for inspection by the Nation or the Secretary and copies shall be furnished upon request. The Nation shall have the right to conduct all other appropriate inspections to ensure compliance with Navajo and Federal laws and regulations that are applicable to the Contract Area and/or HBP acreage.

4.11 Surface Damage Payments. Operator shall pay the Nation on behalf of its members at the rates in effect at the time as determined by the Nation for damages which are incurred to the range, livestock, growing crops, trees, water or improvements caused by Operator's operations within the Contract Area. The Nation shall be solely responsible for allocating and distributing such damage payments to the affected members.

4.12 Navajo Scholarship. Within ten (10) days after the Execution Date of this Agreement, and annually thereafter, Operator shall pay \$5,000 annually to the Nation for its general scholarship fund until expiration or termination of this Agreement.

4.13 Gaddii'ahi/To'Koi Community Reinvestment Fund. Operator shall direct a monthly payment of three-fourths of one percent (0.75%) of the monthly Gross Proceeds generated from the sale of helium by the Operator, as reflected in payment of royalty pursuant to Section 4.4.1, to an investment fund specifically intended to provide ongoing financial support to community and cultural projects within the Gaddii'ahi/To'Koi Chapter.

ARTICLE 5 COMPLIANCE WITH NAVAJO NATION AND FEDERAL REQUIREMENTS

5.1 General Requirements. The Operator shall comply with all Navajo Nation and Federal rules, regulations, permits, and laws including, without limitation, the following:

- 5.1.1 Navajo Preference in Employment Act;
- 5.1.2 Environmental protection rules and regulations;
- 5.1.3 The Navajo Nation Tax Code;
- 5.1.4 Cultural resources and antiquities laws and regulations;
- 5.1.5 The Navajo Nation Water Code; and
- 5.1.6 The Navajo Business and Procurement Act.

In the event either Party identifies a possible conflict between applicable Federal and Navajo Nation laws, regulations, or decisions, the Parties shall meet and confer to determine whether a conflict exists. In the event the Parties agree a conflict exists, the applicable federal law, regulation or decisions shall control, if the federal law preempts the application of Navajo law. In the event the Parties are unable to resolve the conflict (or asserted conflict) amicably, either Party may invoke arbitration in accordance with Article 8 of this Agreement to seek a resolution of the matter. In such an arbitration, the arbitrator(s)' authority shall be limited to the question of whether a conflict exists between applicable federal and Navajo Nation law, regulation or decisions. Should the arbitrator(s) determine a conflict exists, and that the federal law is applicable and preempts the conflicting Navajo law, the federal law, regulation or decision shall control. In the event of a dispute as to controlling law, and performance is required before arbitration can be concluded, with the prior written consent of the Navajo Nation, Operator may act in compliance with the law it considers controlling pending outcome of the arbitration.

5.2 Governing Law. The rights and the obligations of the Parties shall be governed exclusively by the laws of the Nation and the laws of the United States of America, specifically including the Indian Mineral Development Act of 1982, 25 U.S.C. 2101 *et seq.*, and applicable regulations pertaining thereto. Operator agrees that the performance of this Agreement within the Nation is subject to the supervision, monitoring and regulations of the Nation and of any Federal agency with jurisdiction over Operator's performance of this Agreement. Any matter not subject to exclusive regulation by the United States government shall be subject to regulation by the Nation. Except as provided in this Agreement, Operator agrees to strictly observe all Nation laws and regulations. Operator shall comply with applicable Navajo and Federal laws and regulations subject to Section 5.12, prior to commencement of operations and, with respect to any well plugged and abandoned by it hereunder, shall restore the surface pursuant to such regulations.

5.3 Federal Compliance Programs, Cooperation of Parties. The Parties acknowledge and agree that when this Agreement and associated materials are submitted for U.S. Bureau of Indian Affairs (BIA) action, the BIA and other federal agencies will have obligations to conduct: (a) environmental and cultural resources impact analyses under the federal National Environmental Policy Act, Section 106 of the National Historic Preservation Act, the Endangered Species Act, and related statutory and regulatory schemes; and (b) economic and related analyses to inform whether the Agreement is in the best interests of the Navajo Nation and otherwise meets the regulatory requirements described in 25 C.F.R. Part 225 (collectively, the "Federal Compliance Programs"). The Parties shall use all reasonable efforts to: (a) cooperate productively with the BIA and each other in the consultation processes pursuant to the Federal Compliance Programs and comply with all appropriate BIA requirements; (b) cooperate productively with the BIA and each other in any proceedings or negotiations pursuant to the Federal Compliance Programs; (c) keep each other apprised of the status of any material communications with, and inquires or requests for additional information from, any authorities in connection with the Federal Compliance Programs; and (d) not take any action that could reasonably be expected to materially delay or hinder the obtaining of any clearance or approval pursuant to the Federal Compliance Programs. The Nation agrees that mitigation or comparable measures the Parties may seek or agree to pursuant to the Federal Compliance Programs shall not unreasonably interfere with any Permitted Use.

5.4 Permits and Licenses. The Operator shall obtain such permits and licenses as may be required by applicable Nation and/or Federal laws and regulations for the exploration, development, production and sale of all Hydrocarbons and any related activity including the production or disposal of produced water.

5.5 Successors. The covenants, terms and conditions contained in this Agreement shall extend to and be binding upon the successors and assigns of the Parties to this Agreement, subject to compliance with Article 11. While the lands of the Nation are in trust or restricted status, all of the obligations of the Operator under this Agreement are to the United States as well as to the Nation.

5.6 Illegal Conduct. The Operator agrees that it will not use or cause to be used any part of the Contract Area for any unlawful conduct or purpose and will take all measures to prevent any unlawful conduct by any of its employees or subcontractors.

5.7 Corporate Charter. Prior to execution of this Agreement the Operator shall supply the Nation and the Secretary with a copy of its corporate charter and a statement evidencing the authority of its officers or principals to execute this Agreement.

5.8 Members of Congress. No member of or delegate to Congress or employee of the United States government shall participate in any share or part of this Agreement or in any benefit that may arise here from, but this provision shall not be construed to extend to this Agreement if

made with a corporation or company for its general benefit.

5.9 Violations. Violations of this Agreement may be remedied by the Secretary in accordance with the Indian Mineral Development Act of 1982, and any regulations promulgated thereunder, and any other applicable Navajo Nation or Federal statutes and regulations, and by the Navajo Nation in accordance with applicable Navajo laws and regulations. Enforcement of any Federal statute or regulation shall not bar the Nation from enforcing any applicable law or regulation of the Nation or vice versa.

5.10 Liens. Operator will not allow any mechanic's or materialman's lien or judgment to be placed against property of the Nation which becomes subject to this Agreement; provided, however, Operator shall not be deemed in violation of this paragraph so long as it is diligently contesting such lien or judgment or has made adequate provision to pay same in the event such lien or judgment is determined to be valid; provided further, however, the foregoing provisions of this paragraph shall not apply to the interests granted to Operator hereunder which do not involve title to any property of the Nation hereunder, and nothing in this paragraph shall be deemed to prohibit Operator or any other working interest owner in the Contract Area from using its interests under this Agreement as security for loans to finance operations under this Agreement.

5.11 Access to Land. Operator shall not deny any duly authorized employee or agent of the Nation and the Secretary to access any of Operator's operations within the Contract Area at any time; provided however that any duly authorized employee or agent of the Nation shall not interfere with Operator's activities in the Contract Area or with any other rights and interests the Operator may have that are associated with Operator's activities in the Contract Area; and provided further that the Nation and its duly authorized employees and agents shall abide by all Operator's safety requirements when present in the Contract Area.

5.12 Applications for a Permit to Drill (APDs). All APDs will be reviewed and approved by the Nation pursuant to the Nation's APD approval procedures attached hereto as Exhibit "E". Prior to the commencement of any drilling or other surface disturbing activities, Operator will obtain a Finding of No Significant Impact (FONSI) or other indication of compliance with the National Environmental Policy Act from the BIA and final approval of the U.S. Bureau of Land Management (BLM).

5.13 Water Resource Protection. All water used or encountered by Operator in connection with operations under this Agreement shall be governed by the Navajo Nation Water Code, and applicable Federal laws.

5.14 Surface Protection. Operator shall comply with applicable Federal and Nation laws and regulations concerning use of the surface of the Contract Area, location of wells, production facilities, access and production ROWs on the Contract Area and across other lands of the Nation. Before any surface disturbing activities commence, Operator shall obtain the necessary Nation and Federal approvals, including but not limited to payment of the project review processing fee, surface damage payments, archeological/cultural and environmental surveys and/or ROWs assessments, customary land user(s) consent and required bonds.

5.15 Reclamation. Lands disturbed by Operator that are not needed for continued operations under this Agreement shall be promptly reclaimed in accordance with reclamation plans approved by the Nation and the Secretary.

5.16 Bonding. Operator shall furnish all bonds, letters of credit, or other security acceptable to the Secretary and the Nation.

ARTICLE 6
GENERAL REPORTING AND APPROVAL PROCEDURES

6.1 Drilling Reports. Operator shall notify the Minerals Department and the BLM prior to the commencement of any drilling operation, and thereafter shall furnish daily drilling reports showing the progress of said well. Operator shall also notify the Minerals Department of the testing of any formation at least forty-eight (48) hours prior to such testing so that a representative of the Nation may be present to witness such testing.

6.2 Copies of Reports and Tests. Operator shall furnish the Minerals Department with two (2) copies of all log runs plus two (2) copies each of drill stem tests, and other related documentation in connection with the well within thirty (30) days of conducting such log runs and tests. In addition, Operator shall provide on a quarterly basis all data, not previously provided, including but not limited to drill logs, core analyses, surveys, production records, and seismic data obtained by Operator from the Contract Area.

6.3 Production and Royalty Reports. If any well drilled in accordance with this Agreement is completed as a producer, weekly production reports shall be made to the Minerals Department for the first sixty (60) days of production and monthly production reports shall be made to the Minerals Department thereafter. Operator shall notify the Minerals Department and appropriate federal agencies if any extraordinary events occur, such as the shutting-in of any well for a period of thirty (30) days or longer. Operator shall submit to the Minerals Department and Federal agencies all required monthly production reports and monthly reports of sales and royalty with associated royalty payment.

6.4 Dry Holes. Subject to applicable Navajo Nation and Federal regulations, Operator shall have the right to use for disposal, injection, or water production any well it drills that is determined to be incapable of producing Hydrocarbons in paying quantities. Operator shall plug and abandon any dry hole in accordance with applicable Federal and Nation laws and regulations. Operator shall furnish the Nation three (3) copies of the plugging and abandonment reports. In case the land where the dry hole is being used for disposal, injection or water production is relinquished, the Operator has to seek required approvals from the Nation and the Secretary to continue the use of the hole.

6.5 Well File Information. Operator will provide, without warranty as to the accuracy, to the Minerals Department and appropriate Federal agencies, if performed or acquired, the following information in its possession concerning each well reworked or drilled pursuant to this Agreement (defined as "Technical Data"):

1. All Logs -- Field Prints
2. Drill Stem Tests -- Field Data
3. Core Analysis -- Field Data
4. All Logs -- Final Prints (1 paper and 1 digital)
5. Drill Stem Tests -- Final Prints
6. Core Analysis -- Final Prints
7. Geological Report
8. Revised Structure and Isopach Maps (if available)
9. Location Plat
10. Drilling Summary (as required by regulation) and Daily Drilling Reports
11. Directional Survey
12. Completion Diagrams

13. Production Test Data (AOF Potential, GOR, etc.)
14. 30-day Well Production Test Record
15. Bottom Hole Pressure Surveys
16. Gas, Oil and/or Water Analyses
17. Federal Completion Reports
18. Additional Federal and Nation Governmental Permits
19. Plugging and Abandonment Reports
20. Monthly Production Reports

The Nation, in turn, agrees that it shall provide to Operator any such Technical Data owned or controlled by the Nation, relating to Hydrocarbons relevant to the Contract Area, unless prohibited by contract or applicable law. Operator shall not disclose any information obtained from the Nation to third parties, with the exception of authorized assignees.

6.6 Seismic Data. Operator shall provide the Minerals Department with copies of all data from seismic surveys owned by Operator. At the expiration of this Agreement, or upon relinquishment of all or part of the Contract Area as defined in Article 3, unless prohibited by contract or applicable law, Operator shall deliver all originals, and copies of seismic data, interpretations therefrom, including all such information in digital form, to the Minerals Department, and said data shall remain the sole property of the Nation.

6.7 Confidentiality and Restricted Use of Data. Any and all data required to be submitted by Operator in accordance with this Agreement shall be maintained as strictly confidential for the Primary Term of the Agreement and shall be for the sole information and viewing of the Nation. No third party, whether affiliated or non-affiliated, shall have any access to the confidential data without express written consent of Operator.

ARTICLE 7 INDEMNIFICATION AND INSURANCE

7.1 Indemnification. Operator assumes all risk of personal injury to or death of its agents and employees. Operator agrees to indemnify and hold the Nation and the Secretary and their agents, employees, licensees, customary land users, permittees and tenants harmless from all claims, liability and causes of action alleging bodily injury or property damage asserted against the Operator, its agents, employees and subcontractors or any third-party which may arise by reason of the operations of the Operator, its agents, employees and subcontractors, including any negligent omissions in connection with such operations.

7.2 Minimum Insurance Requirements. The Operator shall maintain and shall require its contractors and subcontractors to maintain all insurance required under all applicable laws and regulations. In addition to the requirements of Section 5.16, Operator shall carry the following minimum insurance naming the Operator, Nation and the Secretary as insured:

- 7.2.1 Comprehensive public liability insurance with limits of not less than \$1,000,000 for each accident and \$1,000,000 for death or injury of one person.
- 7.2.2 Comprehensive public liability property damage insurance with limits of not less than \$2,000,000 for each accident and \$2,000,000 aggregate per policy.
- 7.2.3 Automobile public liability insurance with limits of \$1,000,000 for the death

or injury of one person and \$1,000,000 for each accident.

7.2.4 Workers compensation insurance in the Operator's name in the amount established by Navajo law.

7.3 Certificates of Insurance. Certificates of Insurance naming the Nation and the Secretary as additional insured for all said policies will be furnished to the Nation within a reasonable time after receipt.

ARTICLE 8 DISPUTE RESOLUTION AND NAVAJO NATION JURISDICTION

8.1 Sovereignty of the Nation. Except as expressly provided in this Agreement, nothing contained herein shall be interpreted as constituting a waiver, express or implied, of the sovereign immunity of the Nation.

8.2 Dispute Resolution. In the event of any dispute, the Parties shall use their good faith efforts to resolve the dispute, and each Party shall continue to perform in accordance with the other provisions of this Agreement during the pendency of the dispute. As a first step to resolving any dispute, the Parties shall attempt to negotiate a just and equitable settlement thereof. Each Party will communicate and/or meet with the other in good faith and attempt to reach a solution satisfactory to both Parties.

8.3 Arbitration. If such efforts are unsuccessful in reaching a resolution of the Parties' dispute within 60 calendar days of commencement of the negotiations, then either party may invoke arbitration according to the procedures referenced in the Navajo Sovereign Immunity Act, as amended, at 1 N.N.C. §554(J) and §554(K), and as set forth in the Navajo Nation Arbitration Act, as amended, at 7 N.N.C. §§1101 *et seq.* Such arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association, except to the extent such rules are modified by the following:

- a. unless otherwise agreed to in writing by the Parties, all arbitration procedures shall be held in Window Rock, Arizona; and
- b. the arbitration shall be conducted by a single arbitrator selected by the Nation, unless one of the Parties' claims exceeds \$1,000,000.00, exclusive of interest, costs and fees; in such case the arbitration shall be conducted by a panel of three (3) arbitrators, one of which shall be chosen by each Party, with the two arbitrators choosing the third; at least one arbitrator shall possess at least ten (10) years of experience in Indian Law; and
- c. notice of intent to invoke arbitration shall be filed in strict compliance with the notice requirements of the Navajo Sovereign Immunity Act, 1 N.N.C. §555; and
- d. whether as a result of an arbitration provided for herein or of any judicial action to enforce an arbitration award resulting from such arbitration, any award against the Nation shall be in strict conformance with the provisions of 1 N.N.C. §554(K)(1-6); and
- e. whether in the context of an arbitration provided for herein or of any judicial action to enforce an arbitration award resulting from such arbitration, the laws of the Nation

and applicable federal law shall exclusively govern the interpretation of this Agreement, the arbitration provisions set forth herein and the arbitration procedures conducted pursuant thereto, and the application of all the provisions herein to the Operator and its subcontractors, agents, representatives, employees, or consultants; and

- f. pursuant to 1 N.N.C. §554(K) and 7 N.N.C. §1102, the appropriate Navajo Nation District Court shall have exclusive jurisdiction to compel the Nation's participation in an arbitration, and shall have exclusive jurisdiction to enforce, modify, or vacate an arbitration award resulting from such arbitration; neither Party may recover from the other any attorneys' fees or costs.

8.4 Jurisdiction. There is expressly reserved to the Nation full territorial legislative, executive and judicial jurisdiction over the Contract Area under the Agreement and all lands burdened by the Agreement, including without limitation over all persons, including the public, and all activities conducted or otherwise occurring within the Contract Area under the Agreement and all lands burdened by the Agreement shall be and will forever remain Navajo Indian Country for purposes of Nation jurisdiction.

8.5 Waiver of Suit. The negotiation and arbitration provisions herein shall constitute the sole and exclusive procedural remedy to any dispute or controversy arising out of this Agreement. Except as provided in the Navajo Nation Arbitration Act, arbitration shall be a complete defense to any suit, action or proceeding instituted in any federal, state or tribal court with respect to any dispute or controversy arising out of this Agreement that is arbitrated as set forth herein.

8.6 Post-Termination; Post-Expiration. The dispute resolution provisions of this Agreement shall, with respect to such any dispute or controversy arising out of this Agreement, survive the termination or expiration of this Agreement.

ARTICLE 9 CONFIDENTIALITY OF INFORMATION

9.1 The Nation shall have access at all reasonable times and at all locations to all raw geological, geophysical and other resource data in the possession of the Operator concerning the Contract Area and/or HBP acreage if those records have not already been provided to the Nation.

9.2. Subject to Section 11.1 during the term of this Agreement Operator and the Nation shall keep all such data provided by either party to the other concerning the Contract Area and/or HBP acreage confidential subject to the requirements of Section 6.7, except that:

9.2.1 Operator or the Nation may show such data to (a) its employees, consultants, and contractors, (b) third parties for the purposes of preparing revenue and reserve estimate reports and other related reports, or (c) any persons or entities as required by law.

9.2.2 Operator may also show such data to (a) such other person(s) who may wish to purchase a portion of a working interest of the Operator in the Contract Area and/or HBP acreage, or any production therefrom, (b) or acquire a mortgage or (c) such other person(s) as are associated or who desire to become associated with the Operator or one or more working interest owners in the Contract Area in drilling a well or who have acquired or desire to acquire a farmout agreement or other interest in a portion of the Contract Area and/or

HBP acreage.

9.3 Upon termination of this Agreement in whole or as to portions of the Contract Area, and subject to the confidentiality requirements of Section 6.7, all data over which Operator has ownership and control relating to the lands relinquished shall be delivered to the Nation and shall become the sole property of the Nation.

ARTICLE 10 FORCE MAJEURE

10.1 Force Majeure Defined. For purposes of this Agreement, Force Majeure is defined to include strikes, insurrections, demonstrations, terrorist activities, explosions, acts of God, floods, storms, fires, epidemics, unavoidable accidents.

10.2 Effect of Force Majeure. Operator shall not be deemed to be in violation or breach of any obligation under this Agreement during the time and to the extent that it is prevented from or delayed in performing such obligation by Force Majeure.

ARTICLE 11 ASSIGNMENT PROCEDURES

11.1 Approval of the Nation and Secretary. Operator shall not assign, sell, exchange, lease or otherwise dispose of all or any part of its interests under this Agreement without the prior written approval of the Nation as provided in 18 N.N.C. §605 (Standards and procedures for transfer of mining interests in Navajo lands) and the Secretary in accordance with applicable Nation and federal laws and regulations, except that assignments to any Affiliate of Operator of all rights under this Agreement, or any mortgage or other encumbrance of rights under this Agreement, shall not require consent of the Nation, provided that a correct and notarized copy of any such assignment and documentary evidence that the assignment satisfies the conditions excepting it from consent in this Section 11.1, shall be filed with the Nation and the Secretary within fifteen (15) days after execution and delivery. Any successor or assign shall agree in the applicable assignment or other appropriate agreement to be bound by all the terms and conditions of this Agreement.

11.2 Unconsented Assignment Void. Any assignment, sale, exchange, lease or other transfer of Operator's interest without the Nation's prior written approval when required by Section 11.1 shall be null and void.

11.3 Navajo Nation Right of First Refusal. Should Operator desire to assign or sell all or part of its operating interests under this Agreement, it shall comply with applicable Navajo law, including but not limited to 18 N.N.C. §605 as such law may be amended from time to time.

ARTICLE 12 NOTICES

12.1 All notices and communications required or permitted hereunder shall be in writing and shall be deemed to have been duly made if actually delivered to, or mailed by registered or certified mail, postage prepaid, addressed to the Parties at the following addresses. Written notice may also be given by facsimile transmission and shall be effective upon receipt of the transmission. Either Party may, by written communication so delivered to the other, change the name or address to which delivery thereafter shall be made.

To or upon the Nation:

Navajo Nation
P.O. Box 9000
Window Rock, AZ 86515
Attn: Office of the President and Vice President
Phone: 928-871-6352
Fax: 928-871-4025

Navajo Nation
Minerals Department
P.O. Box 1910
Window Rock, AZ 86515
Phone: 928-871-6587
Fax: 928-871-7095

To or upon the Secretary:

Regional Director
Navajo Region
U. S. Bureau of Indian Affairs
United States Department of Interior
301 West Hill Street
Post Office Box 1060
Gallup, New Mexico 87305
Phone: 505-863-8314
Fax: 505-863-8324

To or upon Tacitus, LLC:

President
Tacitus, LLC
2100 Cortland Drive
Farmington, New Mexico 87401
Phone: 801-980-7277

ARTICLE 13 SEVERABILITY PROVISION

13.1 Severability. The invalidity of any term or provision of this Agreement shall not affect the validity of any other provision herein, and the Parties shall negotiate in good faith to enter into an agreement amending any such provision in a manner to make it valid, legal and enforceable while retaining the original intent of the Parties with regard to such term or provision.

ARTICLE 14 BANKRUPTCY

14.1 Bankruptcy. In the event of insolvency, bankruptcy or receivership of the Operator, or its successors, devisees, and assignees, this Agreement and all other agreements, easements, permits, and approvals pertinent hereto shall be voidable at the sole discretion of the Nation as to any lands not HBP within the Contract Area pursuant to Section 3.2 herein.

ARTICLE 15
DEFAULT AND TERMINATION

15.1 Default by Operator. In the event of any material default by Operator in the performance of its obligations under this Agreement, the Nation shall give Operator written notice specifying the default. If Operator does not, within thirty (30) days of receipt of the notice, correct the default or initiate diligent efforts to correct the default, the Nation may terminate this Agreement by delivering a termination notice to Operator, subject to Operator's rights as provided in paragraph 15.4 and subject to Article 8.

15.2 Reclamation. Upon expiration or termination of this Agreement or partial relinquishment of lands within the Contract Area, Operator shall surrender the Contract Area or a portion of the Contract Area in a condition that complies with applicable Nation and Federal laws. It shall be the obligation of Operator to restore those areas within the Contract Area disturbed by Operator or its subcontractors, pursuant to approved reclamation plans and in compliance with all applicable statutes, regulations and administrative orders.

15.3 Final Data. Upon expiration or termination of this Agreement or of the partial relinquishment of lands within the Contract Area, the Nation shall become the owner of all data in Operator's possession or control relating to the expired, terminated, or relinquished lands. Within sixty (60) days after the expiration or termination of this Agreement or partial relinquishment of lands within the Contract Area, Operator shall deliver to the Nation all such data that Operator has not previously furnished to the Nation. Operator may retain access to all such data for area studies and further evaluation for use in future exploration for as long as this Agreement remains in force.

15.4 Removal of Improvements, Equipment and Stockpiled Products. Operator shall have the right of ingress and egress within (90) days after expiration or termination of this Agreement or after partial relinquishment of lands within the Contract Area, to remove its property from the affected portions of the Contract Area, subject to the following restrictions:

15.4.1 Operator may not remove casing in wells and other material, equipment and structures necessary for the continued operation of wells producing or capable of producing Hydrocarbons in paying quantities as determined by the Minerals Department and the Secretary. Unless refused in writing by the Minerals Department all such casing in wells, material, structures and equipment shall be and become the property of the Nation when this Agreement expires.

15.4.2 Unless stated otherwise in writing by the Minerals Department, Operator may not remove any property from the Contract Area if Operator has outstanding financial obligations to the Nation related to this Agreement.

[EXECUTION PAGE FOLLOWS]

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

NAVAJO NATION

By: _____
Jonathan Nez, President

Pursuant to Navajo Nation Council Legislation No.

OPERATOR:

Tacitus, LLC

By: _____
Jason Demers, President

APPROVED

By: _____
Regional Director
Navajo Region
Bureau of Indian Affairs
U. S. Department of the Interior

Date: _____

Pursuant to 1 N.N.C. § 554(J)(2) and (K)(2), Navajo Nation Department of Justice approval is required for all agreements that include a limited waiver of sovereign immunity to compel or enforce arbitration under the Navajo Nation Arbitration Act, as amended, 7 N.N.C. §1101 *et seq.* As the Navajo Nation Arbitration Act, 7 N.N.C. § 1001, *et seq.*, is valid and enforceable under Navajo Nation law, and this Agreement is in full compliance with such Act, this Agreement is hereby approved.

Approved:

Navajo Nation Department of Justice



Contract No. _____

OPERATING AGREEMENT BETWEEN

THE NAVAJO NATION

AND

TACITUS, LLC

TOCITO DOME NORTH

Located in
San Juan County, New Mexico

THIS AGREEMENT ("Agreement") is made and entered into this ____ day of _____, 2020, within the Navajo Nation at Window Rock, Navajo Nation (AZ), by and between the Navajo Nation (or the "Nation") and Tacitus, LLC (hereinafter referred to as "Operator" or "Tacitus", as appropriate) (herein collectively referred to as the "Parties" or individually as "Party").

WITNESSETH

WHEREAS, the United States of America is Trustee for the Nation and as such holds legal title to all lands and mineral rights of the Nation within the lands described in this Agreement within the Contract Area; and

WHEREAS, the Nation holds equitable title to all lands and mineral rights described in this Agreement; and

WHEREAS, the Nation warrants that the lands covered by this Agreement are not presently subject to any oil and gas leases, coalbed gas leases, coal leases or other agreements for the exploration and development of oil, gas, coalbed gas, coal, or other Hydrocarbons; and

WHEREAS, the Nation desires to explore, develop, produce, and sell oil, gas, coalbed gas and other Hydrocarbons which may be found in the lands covered by this Agreement; and,

NOW, THEREFORE, in consideration of the terms, conditions, promises and agreements as contained herein and to be kept and performed, the parties hereto agree as follows:

ARTICLE 1 DEFINITIONS

1.1 Affiliate means any entity as defined in 30 C.F.R. § 1206.51 or any applicable substitute future regulations.

1.2 Commencement of Drilling means the spudding of a well with a rig capable of drilling to the desired geological formation depth.

1.3 Contract Area means all of the land located within the boundaries of the Navajo Nation in San Juan County, New Mexico as fully described in Exhibit "A" (Map of Contract Area) and Exhibit "A-1" (Metes and Bounds).

1.4 Earning Well means each exploration well and development well drilled and completed under this Agreement capable of producing Hydrocarbons in paying quantities.

1.5 Effective Date means the date when this Agreement is approved by the Secretary, following execution by Tacitus and the Navajo Nation.

1.6 Execution Date means the date when this Agreement is executed by Tacitus and by the Navajo Nation following approval of the Agreement by the Navajo Nation Council in accordance with Navajo Nation laws, policies and regulations.

1.7 Hydrocarbons means naturally occurring hydrocarbon oil, gas, casinghead gas, coal bed methane, distillate, condensate, liquid hydrocarbons and each of their respective constituent vapors and liquids, and including without limitation, helium and carbon dioxide, and all other non-hydrocarbon gases within the Contract Area. Hydrocarbons do not include coal matrix material or the in-situ synthetic gasification of coal matrix material.

1.8 Minerals Department means the Navajo Nation Minerals Department, or its successor agency.

1.9 Operator means Tacitus, and its successors and assigns, which has primary responsibility for maintaining well operations and complying with Navajo and Federal laws and regulations.

1.10 Production in Paying Quantities means that amount of production that would return a profit, however small, to Operator over lifting or production costs, but excluding drilling, completion and recompletion, reworking or equipment costs.

1.11 Secretary means the Secretary of the Interior of the United States of America or his duly authorized representative.

1.12 Spacing Unit means the area of land allocated to a well for purposes of spacing producing wells designated by the appropriate Navajo or Federal authority.

1.13 Unit means a contiguous land area or block of land within which there is more than one owner of the oil and gas rights. Said area or block of land is operated for the production of oil and gas according to the terms and conditions of a Unitization Agreement entered into by the owners of the oil and gas rights.

1.14 Unitization Agreement means an agreement for conducting oil and gas operations over an area or block of land with separately owned interests.

ARTICLE 2 EXPLORATION AND PRODUCTION RIGHTS

2.1 The Nation hereby grants to the Operator the exclusive right, privilege and obligation to explore for, develop, produce and sell Hydrocarbons from any geologic formation from the surface of the earth downward to the center of the earth within the Contract Area during the term of this Agreement, except as otherwise limited in this Agreement. Notwithstanding the foregoing sentence, the Nation shall retain the right to conduct or authorize any third party to conduct seismic surveys on or through the Contract Area without compensation to the Operator, upon reasonable notice; provided however that any such seismic survey work shall not interfere with Operator's activities in the Contract Area or with any other rights and interests the Operator may have that are associated with Operator's activities in the Contract Area; and provided further that the Nation or its third party contractor shall abide by all Operator's reasonable safety requirements when conducting survey work in the Contract Area.

2.2 The Nation further grants the Operator the right during the Primary Term to construct, maintain and use within the Contract Area all works, buildings, plants, waterways, roads, telegraph and telephone lines, utility lines, pipelines, reservoirs, tanks, pumping stations, or other structures necessary or desirable to effectuate the purposes of this Agreement, along with the right of ingress and egress to and from the Contract Area and rights-of-way for passage over the Contract

Area, and consents hereby to grant by the United States of all rights-of-way (ROWs) consistent with the terms of this Agreement required for such construction, maintenance, use, and ingress or egress, subject to Operator's obtaining all other permits and approvals required by the laws of the Nation and by applicable Federal regulations. The consent provided in this Section 2.2 includes, without limitation, consent to the (i) grant of any such ROWs on lands within the Contract Area held by production (HBP) following the Primary Term; and (ii) following the Primary Term, for ingress to or egress from facilities on lands HBP within the original Contract Area. A ROW granted in accordance with this Section 2.2 shall survive termination of the Primary Term if the ROW supports Contract Area operations on acreage HBP, in accordance with Section 3.2. Any ROWs granted to Operator shall be subject to payment of ROW compensation (except the ROWs granted within the Contract Area and rights of ingress and egress, any of which require no additional ROW compensation), normal surface damage assessments and any application filing fee.

2.3 If Operator deems it appropriate to form a Unit with other adjacent operators/lessees outside the Contract Area, the Nation and the Secretary must first approve the Unitization Agreement. Any Unitization Agreement or Unit Operating Agreement proposed or submitted for approval by Operator shall not be inconsistent with the provisions of this Agreement and will not be valid unless approved by the Nation and the Secretary.

2.4 The Nation reserves the right to occupy and lease the Contract Area for any lawful purpose not inconsistent with Operator's rights under this Agreement.

ARTICLE 3 TERM OF AGREEMENT

3.1 Primary Term. The Primary Term of this Agreement shall be five (5) years from the Effective Date. At the end of the Primary Term, all lands not HBP pursuant to paragraph 3.2 shall automatically be relinquished by Operator at the completion of the abandonment and reclamation, if required, from the Contract Area and from this Agreement and the Operator shall have no further rights or claims to the relinquished lands.

3.2 Production Term. At the expiration of the Primary Term, this Agreement shall terminate as to all lands within the Contract Area which are not HBP because those lands are located outside of a designated producing well spacing acreage. This Agreement shall continue in full force and effect for a full term of twenty (20) years from the Effective Date provided there is Hydrocarbon Production in Paying Quantities from HBP acreage. During the Production Term any acreage not producing Hydrocarbons in paying quantities for a period of thirty (30) days, unless Operator within 30 days has commenced and thereafter conducts with due diligence the necessary maintenance, mechanical or other work or repairs on any well or associated facilities, shall be subject to termination at the discretion of the Minerals Department due to non-production. Operator shall execute all instruments deemed necessary by the Nation to effectuate the release of such lands in a timely manner.

3.3 Obligations After Termination/Expiration. The termination or expiration of this Agreement as to all or part of the Contract Area shall not release Operator from any obligation to the Nation arising prior to termination or expiration, including but not limited to the obligation to plug, reclaim and abandon any well(s) not capable of producing Hydrocarbons as of the date of termination or expiration, unless otherwise requested in writing by the Minerals Department.

ARTICLE 4 PAYMENTS TO THE NATION

4.1 Minimum Bonus. In consideration for the rights granted to Operator in this

Agreement, a Bonus payment of \$420,625.00 (\$125/acre) for 3,365 acres will be paid to the Nation by Operator within ten (10) days following the Execution Date. A land survey shall be conducted by Operator after execution of this Agreement and if such survey concludes that the acreage covered under this Agreement is greater, the bonus payment shall be increased to incorporate the additional acreage.

4.2 Rental Payments. Beginning one year after the Execution Date and annually thereafter, the Operator will pay the Nation an Advance Annual Rental Payment of ten dollars (\$10.00) for each acre in the Contract Area that is not relinquished. Advance Annual Rental payments will be made by Operator within ten (10) days after each anniversary of the Execution Date and shall include a complete listing and the location of producing oil and gas wells and the unrelinquished acreage, if any, within the Contract Area on that anniversary of the Execution Date. Advance Annual Rental Payments are recoupable during Primary and Production Terms against any royalty payments during the following production year.

4.3 Oil Royalty. Unless the Nation is taking its oil RIK, the Operator shall pay the Nation on a monthly basis a variable royalty on all oil (including without limitation, all condensate) produced and sold from the Contract Area. The Operator will use, if available, the index price approved by the United States Office of Natural Resources Revenue (ONRR) for the field or area (ONRR Oil Index Price) to determine the monthly weighted average oil price (\$/Barrel) and the corresponding royalty rate percentage from Exhibit "B", attached hereto and incorporated herein, to determine the monthly royalty rate percentage. If the ONRR Oil Index Price is no longer determined, a comparable index will be used as agreed upon by the Minerals Department and Operator. If the Nation is taking its oil RIK pursuant to Section 4.5, from the Contract Area, monthly RIK volume will be determined by using the monthly royalty rate percentage described above times the total volume of oil produced from the Contract Area. If the Nation is not taking its RIK pursuant to Section 4.5 from the Contract Area, the value for royalty purposes for the monthly crude oil will be determined pursuant to the provisions of 30 C.F.R. Chapter XII, Subchapter A, Part 1206, Subpart B or any applicable substitute future regulations.

4.4 Gas Royalty. Unless the Nation is taking its gas RIK, The Operator shall pay the Nation on a monthly basis a variable royalty on all natural gas (including carbon dioxide and nitrogen, but excluding helium and gases produced and sold in association therewith), produced and sold from the Contract Area. The Operator will use, if available, the index price for natural gas approved by ONRR for the field or area (ONRR Gas Index Price) to determine the monthly weighted average gas price (\$/MMBtu) and corresponding royalty rate percentage specified in the table of monthly weighted average prices and rate attached as Exhibit "C". If the ONRR-Gas Index Price is no longer determined, a comparable index will be used as agreed upon by the Minerals Department and Operator. If the Nation is taking its gas RIK pursuant to Section 4.5, from the Contract Area, monthly RIK volume will be determined by using the monthly royalty rate percentage for the weighted average of gas produced and sold in the month times the total volume of gas produced from the Contract Area. If the Nation is not taking its gas RIK pursuant to Section 4.5 from the Contract Area, the value for royalty purposes for the monthly natural gas will be determined pursuant to the provisions of 30 C.F.R. Chapter XII, Subpart A, Part 1206, Subpart E or any applicable substitute future regulations.

4.4.1 Helium Royalty. Upon the determination of Gross Proceeds pursuant to this Section 4.4.1, the Operator shall pay the Nation on a monthly basis a variable royalty on the helium produced and sold from the Contract Area at the rates specified in the table of monthly weighted average prices and corresponding royalty rate percentage attached as Exhibit "D". Gross Proceeds for purposes of this Section 4.4.1 are the Gross Proceeds as defined under 30 C.F.R. Chapter XII, Subpart A, Part 1206, Subpart E less the monthly Community Reinvestment Fund payments provided for in Section 4.13. If the Nation is taking its helium RIK pursuant to Section 4.5 from the

Contract Area, monthly RIK volume will be determined at the wellhead by using the monthly royalty rate percentage for the weighted average of gas produced in the month described above pursuant to Exhibit "D" times the total volume of helium produced from the Contract Area. If the Nation is not taking its helium RIK pursuant to Section 4.5 from the Contract Area, the Gross Proceeds for monthly helium royalty purposes will be the total monies and other consideration accruing to the Operator for the disposition of the helium sold during such month by reference to Operator's arm's length purchase and sale agreements for such helium.

4.5 Taking RIK. The Nation may elect to take its share of Hydrocarbon production in kind as follows:

4.5.1 For oil and/or natural gas, initiation of RIK upon sixty (60) days written notice to the Operator or from the time of initial production if the Nation notifies the Operator in advance and to cancel RIK, the Nation shall give sixty (60) days written notice to the Operator if the Nation decides not to continue taking its share of oil and/or natural gas production in kind; or

4.5.2 For Helium, initiation of RIK upon one hundred and twenty (120) days written notice to the Operator or from the time of initial production if the Nation notifies the Operator in advance and shall give sixty (60) days written notice to the Operator if the Nation decides not to continue taking its share of helium production in kind.

4.6 Method and Timing of Payment. All Hydrocarbon royalty payments to the Nation under this Agreement, excluding Helium royalty payments, shall be due and payable by the 20th day of the month following the month during which the produced product(s) were sold or taken in kind. Any such payments not timely paid by the Operator shall bear interest from the date due to the date of payment at the rate then being assessed by the Navajo Nation Minerals Audit Program or its successor program or ONRR or its successor agency, as applicable. The parties acknowledge that the sale and payment to Operator for Helium production and related gases, including RIK Helium sales, may not occur in the same month as the month in which such gases are produced. Consequently, the parties acknowledge that the payment of royalties for such gases shall be made only in the month following Operator's receipt of payment for the sale of such gases, as long as such sale does not occur later than sixty (60) days after production.

4.7 Late Payments. Any payments including but without limitation, bonus, royalty, rental and damages, not received by the Nation in a timely manner from the Operator shall bear interest and applicable penalty from the date due to the date of payment at the rate then being assessed by ONRR or by the Nation, as applicable.

4.8 Payment of Navajo Nation Taxes. Operator shall pay when due all applicable Navajo Nation taxes, provided that Operator may assert any objections it may have to the applicability or amount of any such tax in accordance with the Uniform Tax Administration Statute, as amended, 24 N.N.C. § 101 *et seq.*

4.9 Point of Gas Measurement. For purposes of calculating the Nation's royalty, natural gas volumes shall be measured at the wellhead meter and shall be tested at the wellhead meter for BTU content.

4.10 Audit and Inspection. Operator shall maintain detailed, comprehensive and accurate accounting records necessary to justify calculation of all payments due to the Nation. In addition to the monthly reports of operations and sales required in this Agreement, upon written request of the Minerals Department, Operator shall furnish to the Nation an annual operating statement containing an accounting of operations, costs, and expenses as reviewed or audited by an

independent accounting firm which shall be subject to further audit by the Nation or the Secretary at their sole cost and expense. The Nation or the Secretary may at their sole cost and expense audit the quantity and quality of production and sales at any time upon reasonable notice to the Operator. Any and all records kept by or for Operator related to performance of this Agreement, including but not limited to records of production and sale and contracts of sale, shall be available for inspection by the Nation or the Secretary and copies shall be furnished upon request. The Nation shall have the right to conduct all other appropriate inspections to ensure compliance with Navajo and Federal laws and regulations that are applicable to the Contract Area and/or HBP acreage.

4.11 Surface Damage Payments. Operator shall pay the Nation on behalf of its members at the rates in effect at the time as determined by the Nation for damages which are incurred to the range, livestock, growing crops, trees, water or improvements caused by Operator's operations within the Contract Area. The Nation shall be solely responsible for allocating and distributing such damage payments to the affected members.

4.12 Navajo Scholarship. Within ten (10) days after the Execution Date of this Agreement, and annually thereafter, Operator shall pay \$5,000 annually to the Nation for its general scholarship fund until expiration or termination of this Agreement.

4.13 Sonastee Community Reinvestment Fund. Operator shall direct a monthly payment of three-fourths of one percent (0.75%) of the monthly Gross Proceeds generated from the sale of helium by the Operator, as reflected in payment of royalty pursuant to Section 4.4.1, to an investment fund specifically intended to provide ongoing financial support to community and cultural projects within the Sonastee Chapter; provided however, that any such contributions shall not be deductible from royalties otherwise due the Nation.

ARTICLE 5 COMPLIANCE WITH NAVAJO NATION AND FEDERAL REQUIREMENTS

5.1 General Requirements. The Operator shall comply with all Navajo Nation and Federal rules, regulations, permits, and laws including, without limitation, the following:

- 5.1.1 Navajo Preference in Employment Act;
- 5.1.2 Environmental protection rules and regulations;
- 5.1.3 The Navajo Nation Tax Code;
- 5.1.4 Cultural resources and antiquities laws and regulations;
- 5.1.5 The Navajo Nation Water Code; and
- 5.1.6 The Navajo Business and Procurement Act.

In the event either Party identifies a possible conflict between applicable Federal and Navajo Nation laws, regulations, or decisions, the Parties shall meet and confer to determine whether a conflict exists. In the event the Parties agree a conflict exists, the applicable federal law, regulation or decisions shall control, if the federal law preempts the application of Navajo law. In the event the Parties are unable to resolve the conflict (or asserted conflict) amicably, either Party may invoke arbitration in accordance with Article 8 of this Agreement to seek a resolution of the matter. In such an arbitration, the arbitrator(s)' authority shall be limited to the question of whether a conflict exists between applicable federal and Navajo Nation law, regulation or decisions. Should the arbitrator(s) determine a conflict exists, and that the federal law is applicable and preempts the conflicting Navajo law, the federal law, regulation or decision shall control. In the event of a dispute as to controlling law, and performance is required before arbitration can be concluded, with the prior written consent of the Navajo Nation, Operator may act in compliance with the law it considers controlling pending outcome of the arbitration.

5.2 Governing Law. The rights and the obligations of the Parties shall be governed exclusively by the laws of the Nation and the laws of the United States of America, specifically including the Indian Mineral Development Act of 1982, 25 U.S.C. 2101 *et seq.*, and applicable regulations pertaining thereto. Operator agrees that the performance of this Agreement within the Nation is subject to the supervision, monitoring and regulations of the Nation and of any Federal agency with jurisdiction over Operator's performance of this Agreement. Any matter not subject to exclusive regulation by the United States government shall be subject to regulation by the Nation. Except as provided in this Agreement, Operator agrees to strictly observe all Nation laws and regulations. Operator shall comply with applicable Navajo and Federal laws and regulations subject to Section 5.12, prior to commencement of operations and, with respect to any well plugged and abandoned by it hereunder, shall restore the surface pursuant to such regulations.

5.3 Federal Compliance Programs, Cooperation of Parties. The Parties acknowledge and agree that when this Agreement and associated materials are submitted for U.S. Bureau of Indian Affairs (BIA) action, the BIA and other federal agencies will have obligations to conduct: (a) environmental and cultural resources impact analyses under the federal National Environmental Policy Act, Section 106 of the National Historic Preservation Act, the Endangered Species Act, and related statutory and regulatory schemes; and (b) economic and related analyses to inform whether the Agreement is in the best interests of the Navajo Nation and otherwise meets the regulatory requirements described in 25 C.F.R. Part 225 (collectively, the "Federal Compliance Programs"). The Parties shall use all reasonable efforts to: (a) cooperate productively with the BIA and each other in the consultation processes pursuant to the Federal Compliance Programs and comply with all appropriate BIA requirements; (b) cooperate productively with the BIA and each other in any proceedings or negotiations pursuant to the Federal Compliance Programs; (c) keep each other apprised of the status of any material communications with, and inquires or requests for additional information from, any authorities in connection with the Federal Compliance Programs; and (d) not take any action that could reasonably be expected to materially delay or hinder the obtaining of any clearance or approval pursuant to the Federal Compliance Programs. The Nation agrees that mitigation or comparable measures the Parties may seek or agree to pursuant to the Federal Compliance Programs shall not unreasonably interfere with any Permitted Use.

5.4 Permits and Licenses. The Operator shall obtain such permits and licenses as may be required by applicable Nation and/or Federal laws and regulations for the exploration, development, production and sale of all Hydrocarbons and any related activity including the production or disposal of produced water.

5.5 Successors. The covenants, terms and conditions contained in this Agreement shall extend to and be binding upon the successors and assigns of the Parties to this Agreement, subject to compliance with Article 11. While the lands of the Nation are in trust or restricted status, all of the obligations of the Operator under this Agreement are to the United States as well as to the Nation.

5.6 Illegal Conduct. The Operator agrees that it will not use or cause to be used any part of the Contract Area for any unlawful conduct or purpose and will take all measures to prevent any unlawful conduct by any of its employees or subcontractors.

5.7 Corporate Charter. Prior to execution of this Agreement the Operator shall supply the Nation and the Secretary with a copy of its corporate charter and a statement evidencing the authority of its officers or principals to execute this Agreement.

5.8 Members of Congress. No member of or delegate to Congress or employee of the United States government shall participate in any share or part of this Agreement or in any benefit

that may arise here from, but this provision shall not be construed to extend to this Agreement if made with a corporation or company for its general benefit.

5.9 Violations. Violations of this Agreement may be remedied by the Secretary in accordance with the Indian Mineral Development Act of 1982, and any regulations promulgated thereunder, and any other applicable Navajo Nation or Federal statutes and regulations, and by the Navajo Nation in accordance with applicable Navajo laws and regulations. Enforcement of any Federal statute or regulation shall not bar the Nation from enforcing any applicable law or regulation of the Nation or vice versa.

5.10 Liens. Operator will not allow any mechanic's or materialman's lien or judgment to be placed against property of the Nation which becomes subject to this Agreement; provided, however, Operator shall not be deemed in violation of this paragraph so long as it is diligently contesting such lien or judgment or has made adequate provision to pay same in the event such lien or judgment is determined to be valid; provided further, however, the foregoing provisions of this paragraph shall not apply to the interests granted to Operator hereunder which do not involve title to any property of the Nation hereunder, and nothing in this paragraph shall be deemed to prohibit Operator or any other working interest owner in the Contract Area from using its interests under this Agreement as security for loans to finance operations under this Agreement.

5.11 Access to Land. Operator shall not deny any duly authorized employee or agent of the Nation and the Secretary to access any of Operator's operations within the Contract Area at any time; provided however that any duly authorized employee or agent of the Nation shall not interfere with Operator's activities in the Contract Area or with any other rights and interests the Operator may have that are associated with Operator's activities in the Contract Area; and provided further that the Nation and its duly authorized employees and agents shall abide by all Operator's safety requirements when present in the Contract Area.

5.12 Applications for a Permit to Drill (APDs). All APDs will be reviewed and approved by the Nation pursuant to the Nation's APD approval procedures attached hereto as Exhibit "E". Prior to the commencement of any drilling or other surface disturbing activities, Operator will obtain a Finding of No Significant Impact (FONSI) or other indication of compliance with the National Environmental Policy Act from the BIA and final approval of the U.S. Bureau of Land Management (BLM).

5.13 Water Resource Protection. All water used or encountered by Operator in connection with operations under this Agreement shall be governed by the Navajo Nation Water Code, and applicable Federal laws.

5.14 Surface Protection. Operator shall comply with applicable Federal and Nation laws and regulations concerning use of the surface of the Contract Area, location of wells, production facilities, access and production ROWs on the Contract Area and across other lands of the Nation. Before any surface disturbing activities commence, Operator shall obtain the necessary Nation and Federal approvals, including but not limited to payment of the project review processing fee, surface damage payments, archeological/cultural and environmental surveys and/or ROWs assessments, customary land user(s) consent and required bonds.

5.15 Reclamation. Lands disturbed by Operator that are not needed for continued operations under this Agreement shall be promptly reclaimed in accordance with reclamation plans approved by the Nation and the Secretary.

5.16 Bonding. Operator shall furnish all bonds, letters of credit, or other security acceptable to the Secretary and the Nation.

ARTICLE 6
GENERAL REPORTING AND APPROVAL PROCEDURES

6.1 Drilling Reports. Operator shall notify the Minerals Department and the BLM prior to the commencement of any drilling operation, and thereafter shall furnish daily drilling reports showing the progress of said well. Operator shall also notify the Minerals Department of the testing of any formation at least forty-eight (48) hours prior to such testing so that a representative of the Nation may be present to witness such testing.

6.2 Copies of Reports and Tests. Operator shall furnish the Minerals Department with two (2) copies of all log runs plus two (2) copies each of drill stem tests, and other related documentation in connection with the well within thirty (30) days of conducting such log runs and tests. In addition, Operator shall provide on a quarterly basis all data, not previously provided, including but not limited to drill logs, core analyses, surveys, production records, and seismic data obtained by Operator from the Contract Area.

6.3 Production and Royalty Reports. If any well drilled in accordance with this Agreement is completed as a producer, weekly production reports shall be made to the Minerals Department for the first sixty (60) days of production and monthly production reports shall be made to the Minerals Department thereafter. Operator shall notify the Minerals Department and appropriate federal agencies if any extraordinary events occur, such as the shutting-in of any well for a period of thirty (30) days or longer. Operator shall submit to the Minerals Department and Federal agencies all required monthly production reports and monthly reports of sales and royalty with associated royalty payment.

6.4 Dry Holes. Subject to applicable Navajo Nation and Federal regulations, Operator shall have the right to use for disposal, injection, or water production any well it drills that is determined to be incapable of producing Hydrocarbons in paying quantities. Operator shall plug and abandon any dry hole in accordance with applicable Federal and Nation laws and regulations. Operator shall furnish the Nation three (3) copies of the plugging and abandonment reports. In case the land where the dry hole is being used for disposal, injection or water production is relinquished, the Operator has to seek required approvals from the Nation and the Secretary to continue the use of the hole.

6.5 Well File Information. Operator will provide, without warranty as to the accuracy, to the Minerals Department and appropriate Federal agencies, if performed or acquired, the following information in its possession concerning each well reworked or drilled pursuant to this Agreement (defined as "Technical Data"):

1. All Logs -- Field Prints
2. Drill Stem Tests -- Field Data
3. Core Analysis -- Field Data
4. All Logs -- Final Prints (1 paper and 1 digital)
5. Drill Stem Tests -- Final Prints
6. Core Analysis -- Final Prints
7. Geological Report
8. Revised Structure and Isopach Maps (if available)
9. Location Plat
10. Drilling Summary (as required by regulation) and Daily Drilling Reports
11. Directional Survey

12. Completion Diagrams
13. Production Test Data (AOF Potential, GOR, etc.)
14. 30-day Well Production Test Record
15. Bottom Hole Pressure Surveys
16. Gas, Oil and/or Water Analyses
17. Federal Completion Reports
18. Additional Federal and Nation Governmental Permits
19. Plugging and Abandonment Reports
20. Monthly Production Reports

The Nation, in turn, agrees that it shall provide to Operator any such Technical Data owned or controlled by the Nation, relating to Hydrocarbons relevant to the Contract Area, unless prohibited by contract or applicable law. Operator shall not disclose any information obtained from the Nation to third parties, with the exception of authorized assignees.

6.6 Seismic Data. Operator shall provide the Minerals Department with copies of all data from seismic surveys owned by Operator. At the expiration of this Agreement, or upon relinquishment of all or part of the Contract Area as defined in Article 3, unless prohibited by contract or applicable law, Operator shall deliver all originals, and copies of seismic data, interpretations therefrom, including all such information in digital form, to the Minerals Department, and said data shall remain the sole property of the Nation.

6.7 Confidentiality and Restricted Use of Data. Any and all data required to be submitted by Operator in accordance with this Agreement shall be maintained as strictly confidential for the Primary Term of the Agreement and shall be for the sole information and viewing of the Nation. No third party, whether affiliated or non-affiliated, shall have any access to the confidential data without express written consent of Operator.

ARTICLE 7 INDEMNIFICATION AND INSURANCE

7.1 Indemnification. Operator assumes all risk of personal injury to or death of its agents and employees. Operator agrees to indemnify and hold the Nation and the Secretary and their agents, employees, licensees, customary land users, permittees and tenants harmless from all claims, liability and causes of action alleging bodily injury or property damage asserted against the Operator, its agents, employees and subcontractors or any third-party which may arise by reason of the operations of the Operator, its agents, employees and subcontractors, including any negligent omissions in connection with such operations.

7.2 Minimum Insurance Requirements. The Operator shall maintain and shall require its contractors and subcontractors to maintain all insurance required under all applicable laws and regulations. In addition to the requirements of Section 5.16, Operator shall carry the following minimum insurance naming the Operator, Nation and the Secretary as insured:

- 7.2.1 Comprehensive public liability insurance with limits of not less than \$1,000,000 for each accident and \$1,000,000 for death or injury of one person.
- 7.2.2 Comprehensive public liability property damage insurance with limits of not less than \$2,000,000 for each accident and \$2,000,000 aggregate per policy.

7.2.3 Automobile public liability insurance with limits of \$1,000,000 for the death or injury of one person and \$1,000,000 for each accident.

7.2.4 Workers compensation insurance in the Operator's name in the amount established by Navajo law.

7.3 Certificates of Insurance. Certificates of Insurance naming the Nation and the Secretary as additional insured for all said policies will be furnished to the Nation within a reasonable time after receipt.

ARTICLE 8 DISPUTE RESOLUTION AND NAVAJO NATION JURISDICTION

8.1 Sovereignty of the Nation. Except as expressly provided in this Agreement, nothing contained herein shall be interpreted as constituting a waiver, express or implied, of the sovereign immunity of the Nation.

8.2 Dispute Resolution. In the event of any dispute, the Parties shall use their good faith efforts to resolve the dispute, and each Party shall continue to perform in accordance with the other provisions of this Agreement during the pendency of the dispute. As a first step to resolving any dispute, the Parties shall attempt to negotiate a just and equitable settlement thereof. Each Party will communicate and/or meet with the other in good faith and attempt to reach a solution satisfactory to both Parties.

8.3 Arbitration. If such efforts are unsuccessful in reaching a resolution of the Parties' dispute within 60 calendar days of commencement of the negotiations, then either party may invoke arbitration according to the procedures referenced in the Navajo Sovereign Immunity Act, as amended, at 1 N.N.C. §554(J) and §554(K), and as set forth in the Navajo Nation Arbitration Act, as amended, at 7 N.N.C. §§1101 *et seq.* Such arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association, except to the extent such rules are modified by the following:

- a. unless otherwise agreed to in writing by the Parties, all arbitration procedures shall be held in Window Rock, Arizona; and
- b. the arbitration shall be conducted by a single arbitrator selected by the Nation, unless one of the Parties' claims exceeds \$1,000,000.00, exclusive of interest, costs and fees; in such case the arbitration shall be conducted by a panel of three (3) arbitrators, one of which shall be chosen by each Party, with the two arbitrators choosing the third; at least one arbitrator shall possess at least ten (10) years of experience in Indian Law; and
- c. notice of intent to invoke arbitration shall be filed in strict compliance with the notice requirements of the Navajo Sovereign Immunity Act, 1 N.N.C. §555; and
- d. whether as a result of an arbitration provided for herein or of any judicial action to enforce an arbitration award resulting from such arbitration, any award against the Nation shall be in strict conformance with the provisions of 1 N.N.C. §554(K)(1-6); and
- e. whether in the context of an arbitration provided for herein or of any judicial action

to enforce an arbitration award resulting from such arbitration, the laws of the Nation and applicable federal law shall exclusively govern the interpretation of this Agreement, the arbitration provisions set forth herein and the arbitration procedures conducted pursuant thereto, and the application of all the provisions herein to the Operator and its subcontractors, agents, representatives, employees, or consultants; and

- f. pursuant to 1 N.N.C. §554(K) and 7 N.N.C. §1102, the appropriate Navajo Nation District Court shall have exclusive jurisdiction to compel the Nation's participation in an arbitration, and shall have exclusive jurisdiction to enforce, modify, or vacate an arbitration award resulting from such arbitration; neither Party may recover from the other any attorneys' fees or costs.

8.4 Jurisdiction. There is expressly reserved to the Nation full territorial legislative, executive and judicial jurisdiction over the Contract Area under the Agreement and all lands burdened by the Agreement, including without limitation over all persons, including the public, and all activities conducted or otherwise occurring within the Contract Area under the Agreement and all lands burdened by the Agreement shall be and will forever remain Navajo Indian Country for purposes of Nation jurisdiction.

8.5 Waiver of Suit. The negotiation and arbitration provisions herein shall constitute the sole and exclusive procedural remedy to any dispute or controversy arising out of this Agreement. Except as provided in the Navajo Nation Arbitration Act, arbitration shall be a complete defense to any suit, action or proceeding instituted in any federal, state or tribal court with respect to any dispute or controversy arising out of this Agreement that is arbitrated as set forth herein.

8.6 Post-Termination; Post-Expiration. The dispute resolution provisions of this Agreement shall, with respect to such any dispute or controversy arising out of this Agreement, survive the termination or expiration of this Agreement.

ARTICLE 9 CONFIDENTIALITY OF INFORMATION

9.1 The Nation shall have access at all reasonable times and at all locations to all raw geological, geophysical and other resource data in the possession of the Operator concerning the Contract Area and/or HBP acreage if those records have not already been provided to the Nation.

9.2. Subject to Section 11.1 during the term of this Agreement Operator and the Nation shall keep all such data provided by either party to the other concerning the Contract Area and/or HBP acreage confidential subject to the requirements of Section 6.7, except that:

9.2.1 Operator or the Nation may show such data to (a) its employees, consultants, and contractors, (b) third parties for the purposes of preparing revenue and reserve estimate reports and other related reports, or (c) any persons or entities as required by law.

9.2.2 Operator may also show such data to (a) such other person(s) who may wish to purchase a portion of a working interest of the Operator in the Contract Area and/or HBP acreage, or any production therefrom, (b) or acquire a mortgage or (c) such other person(s) as are associated or who desire to become associated with the Operator or one or more working interest owners in the Contract Area in drilling a well or who have acquired or desire to acquire

a farmout agreement or other interest in a portion of the Contract Area and/or HBP acreage.

9.3 Upon termination of this Agreement in whole or as to portions of the Contract Area, and subject to the confidentiality requirements of Section 6.7, all data over which Operator has ownership and control relating to the lands relinquished shall be delivered to the Nation and shall become the sole property of the Nation.

ARTICLE 10 FORCE MAJEURE

10.1 Force Majeure Defined. For purposes of this Agreement, Force Majeure is defined to include strikes, insurrections, demonstrations, terrorist activities, explosions, acts of God, floods, storms, fires, epidemics, unavoidable accidents.

10.2 Effect of Force Majeure. Operator shall not be deemed to be in violation or breach of any obligation under this Agreement during the time and to the extent that it is prevented from or delayed in performing such obligation by Force Majeure.

ARTICLE 11 ASSIGNMENT PROCEDURES

11.1 Approval of the Nation and Secretary. Operator shall not assign, sell, exchange, lease or otherwise dispose of all or any part of its interests under this Agreement without the prior written approval of the Nation as provided in 18 N.N.C. §605 (Standards and procedures for transfer of mining interests in Navajo lands) and the Secretary in accordance with applicable Nation and federal laws and regulations, except that assignments to any Affiliate of Operator of all rights under this Agreement, or any mortgage or other encumbrance of rights under this Agreement, shall not require consent of the Nation, provided that a correct and notarized copy of any such assignment and documentary evidence that the assignment satisfies the conditions excepting it from consent in this Section 11.1, shall be filed with the Nation and the Secretary within fifteen (15) days after execution and delivery. Any successor or assign shall agree in the applicable assignment or other appropriate agreement to be bound by all the terms and conditions of this Agreement.

11.2 Unconsented Assignment Void. Any assignment, sale, exchange, lease or other transfer of Operator's interest without the Nation's prior written approval when required by Section 11.1 shall be null and void.

11.3 Navajo Nation Right of First Refusal. Should Operator desire to assign or sell all or part of its operating interests under this Agreement, it shall comply with applicable Navajo law, including but not limited to 18 N.N.C. §605 as such law may be amended from time to time.

ARTICLE 12 NOTICES

12.1 All notices and communications required or permitted hereunder shall be in writing and shall be deemed to have been duly made if actually delivered to, or mailed by registered or certified mail, postage prepaid, addressed to the Parties at the following addresses. Written notice may also be given by facsimile transmission and shall be effective upon receipt of the transmission. Either Party may, by written communication so delivered to the other, change the name or address to which delivery thereafter shall be made.

To or upon the Nation:

Navajo Nation
P.O. Box 9000
Window Rock, AZ 86515
Attn: Office of the President and Vice President
Phone: 928-871-6352
Fax: 928-871-4025

Navajo Nation
Minerals Department
P.O. Box 1910
Window Rock, AZ 86515
Phone: 928-871-6587
Fax: 928-871-7095

To or upon the Secretary:

Regional Director
Navajo Region
U. S. Bureau of Indian Affairs
United States Department of Interior
301 West Hill Street
Post Office Box 1060
Gallup, New Mexico 87305
Phone: 505-863-8314
Fax: 505-863-8324

To or upon Tacitus, LLC:

President
Tacitus, LLC
2100 Cortland Drive
Farmington, New Mexico 87401
Phone: 801-980-7277

ARTICLE 13 SEVERABILITY PROVISION

13.1 Severability. The invalidity of any term or provision of this Agreement shall not affect the validity of any other provision herein, and the Parties shall negotiate in good faith to enter into an agreement amending any such provision in a manner to make it valid, legal and enforceable while retaining the original intent of the Parties with regard to such term or provision.

ARTICLE 14 BANKRUPTCY

14.1 Bankruptcy. In the event of insolvency, bankruptcy or receivership of the Operator, or its successors, devisees, and assignees, this Agreement and all other agreements, easements, permits, and approvals pertinent hereto shall be voidable at the sole discretion of the Nation as to any lands not HBP within the Contract Area pursuant to Section 3.2 herein.

ARTICLE 15
DEFAULT AND TERMINATION

15.1 Default by Operator. In the event of any material default by Operator in the performance of its obligations under this Agreement, the Nation shall give Operator written notice specifying the default. If Operator does not, within thirty (30) days of receipt of the notice, correct the default or initiate diligent efforts to correct the default, the Nation may terminate this Agreement by delivering a termination notice to Operator, subject to Operator's rights as provided in paragraph 15.4 and subject to Article 8.

15.2 Reclamation. Upon expiration or termination of this Agreement or partial relinquishment of lands within the Contract Area, Operator shall surrender the Contract Area or a portion of the Contract Area in a condition that complies with applicable Nation and Federal laws. It shall be the obligation of Operator to restore those areas within the Contract Area disturbed by Operator or its subcontractors, pursuant to approved reclamation plans and in compliance with all applicable statutes, regulations and administrative orders.

15.3 Final Data. Upon expiration or termination of this Agreement or of the partial relinquishment of lands within the Contract Area, the Nation shall become the owner of all data in Operator's possession or control relating to the expired, terminated, or relinquished lands. Within sixty (60) days after the expiration or termination of this Agreement or partial relinquishment of lands within the Contract Area, Operator shall deliver to the Nation all such data that Operator has not previously furnished to the Nation. Operator may retain access to all such data for area studies and further evaluation for use in future exploration for as long as this Agreement remains in force.

15.4 Removal of Improvements, Equipment and Stockpiled Products. Operator shall have the right of ingress and egress within (90) days after expiration or termination of this Agreement or after partial relinquishment of lands within the Contract Area, to remove its property from the affected portions of the Contract Area, subject to the following restrictions:

15.4.1 Operator may not remove casing in wells and other material, equipment and structures necessary for the continued operation of wells producing or capable of producing Hydrocarbons in paying quantities as determined by the Minerals Department and the Secretary. Unless refused in writing by the Minerals Department all such casing in wells, material, structures and equipment shall be and become the property of the Nation when this Agreement expires.

15.4.2 Unless stated otherwise in writing by the Minerals Department, Operator may not remove any property from the Contract Area if Operator has outstanding financial obligations to the Nation related to this Agreement.

[EXECUTION PAGE FOLLOWS]

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

NAVAJO NATION

By: _____
Jonathan Nez, President

Pursuant to Navajo Nation Council Legislation No.

OPERATOR:

Tacitus, LLC

By: _____
Jason Demers, President

APPROVED

By: _____
Regional Director
Navajo Region
Bureau of Indian Affairs
U. S. Department of the Interior

Date: _____

Pursuant to 1 N.N.C. § 554(J)(2) and (K)(2), Navajo Nation Department of Justice approval is required for all agreements that include a limited waiver of sovereign immunity to compel or enforce arbitration under the Navajo Nation Arbitration Act, as amended, 7 N.N.C. §1101 *et seq.* As the Navajo Nation Arbitration Act, 7 N.N.C. § 1001, *et seq.*, is valid and enforceable under Navajo Nation law, and this Agreement is in full compliance with such Act, this Agreement is hereby approved.

Approved:

Navajo Nation Department of Justice

Gadii'ahi/To'koi Chapter Government

EXH



• P O Box 1318 • Shiprock, NM 87420 • Phone (505) 368-1070 • Fax (505) 368-1072 • gadiiahi@navajochapters.org •

Resolution of Gadii'ahi/To'koi Chapter

GAD/TOK FY 2017-040

SUPPORTING AND APPROVING A HELIUM SCOPING REQUEST BY TACITUS FOR PRELIMINARY EXPLORATION ACTIVITIES FOR FUTURE DEVELOPMENT UPON SATISFACTORY APPROVAL BY THE NAVAJO NATION MINERALS DEPARTMENT AND THE TRIBAL COUNCIL

WHEREAS:

1. Gadii'ahi/To'koi Chapter was established by CMY-48-78 to carry out comprehensive planning for the community membership; and
2. Gadii'ahi/To'koi Chapter is empowered by the Navajo Nation Council to review all matters affecting the community make favorable decision in the best interest of the community membership; and
3. The Gadii'ahi/To'koi Chapter membership has reviewed a scoping agreement for further review by the Navajo Tribal Council stating:

Purpose: As part of the ongoing efforts of Tacitus to develop new helium resources in North America, a region within the Navajo Nation lands was identified as being prospective. In order to evaluate the potential for these lands, Tacitus desires to establish an Area Operating Agreement ('Agreement') with the Division of Natural Resources for the lands identified herein.

Who We Are: Tacitus is an established team of entrepreneurial, technical and business experts with experience in exploration and development of unconventional gas resources. Through establishment of a special screening process Tacitus has created a model for identifying valuable industrial gas resources for exploitation and development. By evaluating a resource based on an 'all gases' approach Tacitus is able to create a value chain unique to the conventional hydrocarbon development models that exist today.

Navajo Nation Lands: Area of Interest: The lands of interest fall within Township 29N and Ranges 18W and 19W of Shiprock Agency and Gadii'ahi/To'koi Chapter encompassing approximately 4,329.0 acres. All of Sections 11,12,14,15 and 24 T29N R19W, W ½ Sec. 18 T29N R18 W plus W ½ of the E ½ Sec. 18 T29N R18W.

Development Plan: It is anticipated that preliminary exploration and development work will begin within 60 days of execution of an Agreement with a target of drilling operations to be underway within 6-9 months and initial production within 12 to 18 months.

Prior to any field activity Tacitus will undertake thorough environmental and cultural impact assessments to ensure we mitigate any potential concerns in advance. We have taken steps in the area of community engagement prior to this proposal in effort to establish the support necessary to carry out a development.

Chapter Officials

Harry Descheene, President
Arnold Nelson, Vice-President
Sylvia Tyler, Secretary/Treasurer

Council Delegate

Amber Crotty

Grazing Rep

Douglas Deswood

Farm Board Rep

Gilbert Harrison

Chapter Admin

Lynda Hayes, CSC
Janice Biggs, AMS

Health Rep

Maggie Johnson

Gadii'ahi/To'koi Chapter Government

• P O Box 1318 • Shiprock, NM 87420 • Phone (505) 368-1070 • Fax (505) 368-1072 • gadii'ahi@navajochapters.org •

NOW THEREFORE BE IT RESOLVED THAT:

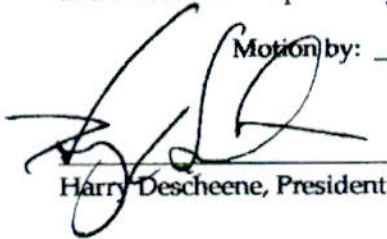
Gadii'ahi/To'koi Chapter hereby supports and approves the preliminary helium scoping activities to be further reviewed and approved by the Navajo Nation Minerals Department and Tribal Council upon favorable results.

CERTIFICATION

We, the undersigned certify the foregoing resolution was presented to the Gadii'ahi/To'koi Chapter at a duly called meeting at the Gadii'ahi/To'koi, Navajo Nation, New Mexico and which a quorum was present and that same was passed by a vote: 15 in favor, 00 opposed, and 02 abstention, this 20th day of April 2017.

Motion by: Cindy Jim

Second by: Mary Lee



Harry Descheene, President



Arnold Nelson, Vice-President



Sylvia A. Tyler, Secretary/Treasurer

Chapter Officials

Harry Descheene, President
Arnold Nelson, Vice-President
Sylvia Tyler, Secretary/Treasurer

Council Delegate

Amber Crotty

Grazing Rep

Douglas Deswood

Farm Board Rep

Gilbert Harrison

Chapter Admin

Lynda Hayes, CSC
Janice Biggs, AMS

Health Rep

Maggie Johnson



TSÉ AL NÁOZT'Í CHAPTER

SANOSTEE@navajochapters.org



P.O. BOX 219

COUNCIL DELEGATE

COUNCIL
AMBER CR077Y

SANOSTEE NM 87461

PRESIDENT

PRESIDENT
JERRYBODIE

VICE-PRESIDENT

CE-PRESIDENT
RUTHDA THOMAS

PHONE: (505) 723-2702

SECRETARY

/TREASURER
CHEVONNE3ENNINGS

FAX: (505) 723-2705

COMM. SÉIJ4CE COORD.
VERONICA M. BEGW

RESOLUTION OF TSÉ AL NÁOZT'Í CHAPTER

Resolution #TAT-16-10-

THE CONSTITUENTS OF TSÉ AL NÁOZT'Í CHAPTER HEREBY SUPPORT AND APPROVE A HELIUM SCOPING REQUEST BY TACITUS FOR PRELIMINARY EXPLORATION ACTIVITIES FOR FUTURE DEVELOPMENT UPON SATISFACTORY APPROVAL BY THE NAVAJO NATION MINERALS DEPARTMENT AND THE TRIBAL COUNCIL

WHEREAS:

1. Pursuant to 26NNC, Section 1 (B), the Navajo Nation Council Delegated the authority to Tsé Al Náozt'í Chapter to review and process all local matters affecting the community and its constituents, assuring that quality services are provided and Section 101 (A)(B), Tsé Al Náozt'í Chapter shall operate under the Five Management System (FMS), consistent with applicable Navajo Nation Laws; and
2. Pursuant to 26NNC, Section 103(A), Tsé Al Náozt'í Chapter membership are authorized to oversee the authority delegated to the chapter and Section 1004(A), Tsé Al Náozt'í Chapter shall enact by resolutions plans of operations, for all executive functions and administrative policies of the chapter; and
3. Tsé Al Náozt'í community membership has reviewed a scoping agreement for further review by the Navajo Tribal Council stating:

PURPOSE:

As part of the ongoing efforts of Tacitus to develop new helium resources in North America, a region within the Navajo Nation lands was identified as being prospective. In order to evaluate the potential for these lands, Tacitus desires to establish an Area Operating Agreement ('Agreement') with the Division of Natural Resources for the lands identified herein.

WHO WE ARE:

Tacitus is an established team of entrepreneurial, technical and business experts with experience in exploration and development of unconventional gas resources.

Through establishment of a special screening process Tacitus has created a model for identifying valuable industrial gas resources for exploitation and development. By evaluating a resource based on an 'all gases' approach Tacitus is able to create a value chain unique to the conventional hydrocarbon development models that exist today.

Tacitus undertakes its business in an ethical, conscientious and sustainable manner and requires each of its employees and contractors to adhere to our standard of business.

GRAZING OFFICIAL

ACCTS MAINT. SPECIALIST

ALONZO COHOE

JOHNNIE R

NAVAJO NATION LANDS:

Area of Interest

The lands of interest fall within Township 29N and Ranges 18 W and 19 W of Shiprock Agency and Tse Al Naozti Chapter encompassing approximately 4,329.0 acres.

All of sections 11, 12, 14, 15 and 24 T29N R19W

W 1/2 sec. 18 T29N R18W plus W 1/2 of the E 1/2 sec. 18 T29N R18W

Development Plan

It is anticipated that preliminary exploration and development work will begin within 60 days of execution of an Agreement with a target of drilling operations to be underway within 6-9 months and initial production within 12 to 18 months.

Prior to any field activity Tacitus will undertake thorough environmental and cultural impact assessments to ensure we mitigate any potential concerns in advance. We have taken steps in the area of community engagement

NOW, THEREFORE BE IT RESOLVED THAT:

Tse Al Naozti Community Chapter hereby approves and supports the preliminary helium scoping activities to be further reviewed and approved by the Navajo Nation Minerals Department and Tribal Council upon favorable results.

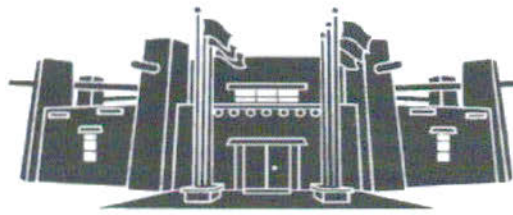
CERTIFICATION

I, certify and approve this forgoing resolution that was considered by the Tse Al Naozti Chapter at a duly called meeting where a quorum was present and that the same passed by a votes: a '7 Approve; COPPOSEd; 5 abstained on the 3D day of October 2016.

Phyllis Todachumy Seconded by: *Theron Arnold*

Jerry Bodie
Jerry Bodie, President

Motion by:



MEMORANDUM

TO: Honorable Carl R. Slater
Lukachukai, Round Rock, Tsaile/Wheatfields, Tse Ch'izhi, Rock Point Chapters

FROM: Mariana Kahn
Mariana Kahn, Attorney
Office of Legislative Counsel

DATE: February 20, 2020

SUBJECT: PROPOSED NAVAJO NATION COUNCIL RESOLUTION; AN ACTION RELATING TO RESOURCES AND DEVELOPMENT COMMITTEE, NAABIK'ÍYÁTI' COMMITTEE AND THE NAVAJO NATION COUNCIL; APPROVING THE RATTLESNAKE AND TOCITO DOME NORTH OIL AND GAS EXPLORATION AND DEVELOPMENT OPERATING AGREEMENTS BETWEEN THE NAVAJO NATION AND TACITUS, LLC FOR CERTAIN TRUST LANDS ON THE NAVAJO NATION (SAN JUAN COUNTY, NEW MEXICO)

I have prepared the above-referenced proposed resolution and associated legislative summary sheet. Based on existing law and review of documents submitted, the resolution as drafted is legally sufficient. As with any action of government however, it can be subject to review by the courts in the event of proper challenge.

The Office of Legislative Counsel confirms the appropriate standing committee(s) based on the standing committees powers outlined in 2 N.N.C. §§301, 401, 501, 601 and 701. Nevertheless, "the Speaker of the Navajo Nation Council shall introduce [the proposed resolution] into the legislative process by assigning it to the respective oversight committee(s) of the Navajo Nation Council having authority over the matters for proper consideration." 2 N.N.C. §164(A)(5).

You are encouraged to review the proposed resolution to ensure that it is drafted to your satisfaction. If you have any questions regarding this legislation, call or come into the Office of Legislative Counsel to discuss the matter with me.

THE NAVAJO NATION
LEGISLATIVE BRANCH
INTERNET PUBLIC REVIEW PUBLICATION



LEGISLATION NO: _0038-20__

SPONSOR: Carl R. Slater

TITLE: An Action Relating To Resources And Development Committee, NAABIK'IYATI' Committee And The Navajo Nation Council; Approving The Rattlesnake And Tocito Dome North Oil And Gas Exploration And Development Operating Agreements Between The Navajo Nation And Tacitus, LLC, For Certain Trust Lands On The Navajo Nation (San Juan County, New Mexico)

Date posted: February 20, 2020 at 5:46 PM

Digital comments may be e-mailed to comments@navajo-nsn.gov

Written comments may be mailed to:

Executive Director
Office of Legislative Services
P.O. Box 3390
Window Rock, AZ 86515
(928) 871-7586

Comments may be made in the form of chapter resolutions, letters, position papers, etc. Please include your name, position title, address for written comments; a valid e-mail address is required. Anonymous comments will not be included in the Legislation packet.

Please note: This digital copy is being provided for the benefit of the Navajo Nation chapters and public use. Any political use is prohibited. All written comments received become the property of the Navajo Nation and will be forwarded to the assigned Navajo Nation Council standing committee(s) and/or the Navajo Nation Council for review. Any tampering with public records are punishable by Navajo Nation law pursuant to 17 N.N.C. §374 *et. seq.*