

## **MEMORANDUM OF MASTER PRODUCTION WATER CUSTODY TRANSFER AGREEMENT**

This MEMORANDUM OF MASTER PRODUCTION WATER CUSTODY TRANSFER AGREEMENT ("Memorandum") is made effective April 23, 2013 ("Effective Date"), by and between EnCana Oil & Gas (USA) Inc. ("EnCana") and Piceance Energy, LLC ("Piceance Energy") sometimes referred to collectively as "Parties" or singularly as "Party" or "Supplier/Shipper" or "Receiver."

### **RECITALS**

- A. The Parties entered into that certain Master Production Water Custody Transfer Agreement made effective April 23, 2013, pursuant to which the Parties set forth the terms and conditions for possible transfers of water from either company's operations in the Piceance Basin of Colorado. Actual transfers of water shall be also subject to the specific terms and conditions of Records of Transfer. The Master Production Water Custody Transfer Agreement together with executed Records of Transfer, if any, shall be referred to as the "Water Transfer Agreement" or "Agreement."
- B. The water subject to transfer under the Water Transfer Agreement consists primarily of produced water from non-tributary, non-coalbed methane wells and flowback water from the Parties' respective completion operations (collectively "Production Water").
- C. Transfer of Production Water between the Parties is expected to significantly reduce water disposal volumes, wastes, haul distances and truck traffic and monetary costs, in addition to being consistent with State of Colorado regulatory agencies' objectives of resource conservation, waste minimization and recycling and re-use of water.
- D. The Parties desire to include this Memorandum as an Appendix to their respective Production Water Reuse and Waste Minimization Plans to give notice of the existence of the Water Transfer Agreement and the legal responsibility for Production Water transferred between the Parties.

### **AGREEMENT**

**NOW, THEREFORE**, in consideration of the covenants and conditions contained herein and in the Water Transfer Agreement, EnCana and Piceance Energy agree as follows:

**Defined Terms.** The defined terms used in this Memorandum shall have the meaning given them in the Water Transfer Agreement.

**Notice.** Notice is hereby given of the existence of the Water Transfer Agreement and certain provisions contained therein are described below. Authorized representatives of COGCC or other third parties with a legal right to know may contact either Party to schedule a review of an executed copy of the Water Transfer Agreement in its entirety, or any records that are required to

be maintained under applicable law or promulgated regulations concerning the Water Transfer Agreement or related to transfers of Production Water between the Parties.

**No Amendment.** This Memorandum is executed and recorded solely for the purpose of giving notice and shall not amend nor modify the Water Transfer Agreement in any way. In the event of any conflict or discrepancy between the terms and conditions set forth in this Memorandum and the Water Transfer Agreement, the terms and conditions of the Water Transfer Agreement shall control.

**Term.** The Water Transfer Agreement shall be in effect for all time periods and volumes of Production Water transferred between the Parties until terminated by either Party by providing written notice to the other Party at least thirty (30) days prior to the effective date of the termination. The terminating Party is also responsible for notifying the COGCC in writing of the termination of the Water Transfer Agreement between the Parties.

**Custody Transfer.** It is agreed that the transferring company ("Supplier/Shipper") shall maintain all legal and regulatory responsibility, custody and control for any Production Water that is transferred under this Agreement until such time as it is Delivered to the receiving company ("Receiver") or its designee at which point the Receiver will assume all legal and regulatory responsibility, custody and control for the Production Water. For purposes of this Agreement, "Delivered" or "Delivery" shall mean the instant the water leaves the water truck(s) or water pipeline(s) at the mutually agreed upon Transfer Location of the Transferee. The Party having legal custody of the Production Water, as described in this Paragraph, shall be the Party with primary responsibility for any spills or releases of Production Water, including notifications and clean-up, if and as applicable.

**Quality.** Supplier/Shipper shall verify that the quality of its Production Water is suitable for the intended use by the Receiver and shall maintain laboratory analytical results for water samples that are representative of their Production Water quality.

**Record Keeping and Reporting.** The Supplier/Shipper shall be the primary Party to maintain records of its Production Water and all transfers of Production Water between the Parties in accordance with applicable laws and promulgated regulations. The Supplier/Shipper shall provide copies of its Record of Transfer within 30 days of completing the transfer. Each Party shall be responsible for preparing and submitting an Annual Report to the COGCC which summarizes its respective Production Water transfers for the previous calendar year. The Annual Report will include a spreadsheet that summarizes the information contained in the Record(s) of Transfer. The annual report for the previous calendar year will be submitted to the COGCC by February, 15 of the following year.

**Usage.** The Supplier/Shipper warrants and represents that it has the right to use and consume all of the Production Water to be delivered to the Receiver and that such Production Water will come from non-coalbed methane wells determined to be "non-tributary" in accordance with applicable laws and regulations. In addition, the Supplier/Shipper warrants and represents that it has complied with all water permitting and related other legal requirements concerning its Production Water, including but not limited to any requirements from the Colorado State Engineer's office.



**Compliance.** Each Party shall comply with all applicable laws and promulgated regulations of governmental entities having jurisdiction over the Production Water, the Transfer Location, or the transfer process including without limitation: a) maintaining an approved plan for the management of its Production Water and its reuse of Production Water; b) timely notifying and reporting reportable spills or releases of Production Water; c) maintaining laboratory analytical results of representative samples of its Production Water and waste generator/transfer records; d) conducting and maintaining records of environmental, health and safety training of personnel and procedures, and e) submitting electronically an annual report to COGCC summarizing produced water transfers for the previous calendar year by February 15 of the following year. Each Party shall also comply with all written environmental, health and safety policies and procedures provided to it by the other Party pertaining to the Transfer Location or the transfer process.

**Relationship of the Parties.** Neither Party is the partner, agent or legal representative of the other, and there is no fiduciary relationship between them.


**No Third Party Beneficiary Rights.** This Memorandum and the Water Transfer Agreement shall be construed to benefit the Parties and their respective successors and assigns only, and shall not be construed to create third party beneficiary rights.

**Entire Agreement; Successors and Assigns.** This Memorandum and the Water Transfer Agreement contain the entire understanding of the Parties and supersede all prior agreements and understandings between the Parties relating to the subject matter hereof. This Memorandum and the Water Transfer Agreement shall be binding upon and inure to the benefit of the respective successors and permitted assigns of the Parties.

**Additional Terms.** The Water Transfer Agreement contains additional provisions, terms and conditions, all of which are by this reference incorporated herein including without limitation those provided in one or more Records of Transfer in the form attached hereto as Exhibit A.

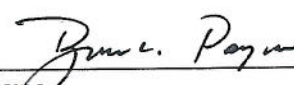
**IN WITNESS WHEREOF,** the Parties have executed this Memorandum of Water Transfer Agreement effective as of the date first above written.

By

  
Chris Durrant  
the Group Lead Water Mgmt

5-14-13  
Date

By

  
Bruce Payne  
President & CFO  
Piceance Energy, LLC

May 9, 2013  
Date