

GAS PROCESSING AGREEMENT

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GAS PROCESSING AGREEMENT

CONTRACT made and entered into effective this 15th day of January, 1954, by and between KANSAS-NEBRASKA NATURAL GAS COMPANY, INC., hereinafter called "Supplier" and NOBLE C. GINTHER, H. C. WARREN and W. L. GINTHER, hereinafter designated collectively as "Processor":

WHEREAS, Supplier is assisting certain producers in the conservation of gas produced in association with oil (commonly called casinghead gas) and is gathering said gas at the producer's tank batteries, and

WHEREAS, Supplier then delivers said gas at low pressure into its Yenter Compressor Station where said gas is compressed to high pressure for transmission through Supplier's main pipeline system, and

WHEREAS, said gas appears to contain an excess of hydrocarbons over and above those usually contained in the natural gas which Supplier normally transmits through its pipeline system; and

WHEREAS, said hydrocarbons are dropping out in Supplier's pipeline, filling drips, meters, valves, etc., and otherwise creating a serious operating problem for Supplier; and

WHEREAS, Supplier desires that a plant be erected near its Yenter Compressor Station for the purpose of extracting certain of the hydrocarbons so that said gas can be transported through its pipeline without such difficulties, and

WHEREAS, Processor is experienced in operating such a plant and is willing to construct a plant in the vicinity of Supplier's Yenter Compressor Station and to process Supplier's gas therein.

NOW THEREFORE, it is hereby understood and agreed as follows:

1. REPRESENTATIONS OF PROCESSOR:

Processor represents that it will construct a gas processing plant situated in Logan County, Colorado in the area of Yenter Field, for the purpose

of extracting certain hydrocarbons from the gas said plant to be commonly referred to as the Yenter Plant.

2. REPRESENTATIONS OF SUPPLIER:

Supplier represents that it owns or controls all the gas passed through its pipe line at the site of the proposed plant, and that it has the right to and desires to have the Processor process said gas being transported through the line for the recovery of commercial quantities of the various hydrocarbons contained therein.

3. PROCESSING

Processor shall have the right to process all the gas or liquid hydrocarbons discharged from the final stage of Supplier's compressor, subject to the following terms and conditions

- (a) Upon the execution of this contract, Processor will immediately proceed with the installation in the vicinity of Supplier's Yenter Compressor Station located on the E 1/2 of Lot 7, Section 4, Township 8 North, Range 54 West, Logan County, Colorado, of the necessary equipment to process a volume of six million (6,000,000) cubic feet of Supplier's gas per day and will commence the actual processing of Supplier's gas up to the capacity of said processing equipment at the earliest practicable date.
- (b) It is recognized that the volume of gas which Supplier currently has available for processing is in excess of six million (6,000,000) cubic feet per day and it is agreed that within six months from the date of this agreement, Processor shall notify Supplier whether it elects to construct the additional facilities necessary to process the remaining gas available for processing. In the event Processor elects to construct such additional facilities it shall complete said construction within sixty (60) days

from the date of said notice and shall commence the actual processing of Supplier's remaining gas available for processing at the earliest practicable date.

- (c) In the event Processor does not elect to construct the additional processing facilities provided for in subsection B of this Article 3, Supplier may, at its option, construct such facilities and process the remaining gas available for processing.

4. MEASUREMENT:

Processor shall install, maintain and operate at its own expense proper measuring equipment and other necessary equipment by which the volume and temperature of gas consumed by the plant shall be measured.

The unit of measurement of gas hereunder shall be a cubic foot of gas and the term cubic foot of gas wherever used in this contract shall be computed on a pressure base of fifteen point eight two five (15.025) pounds per square inch absolute and on a temperature base of sixty degrees (60°) Fahrenheit. The volume of gas delivered hereunder, as measured at recorded temperatures and pressures, shall be computed from the meter records and converted into the units of measurement and shall be assumed to obey Boyle's law without any correction for deviation.

Adjustments for Inaccuracy: If any meter is found to be inoperative or inaccurate, it shall be adjusted to register correctly. The amount of error shall be determined by the most accurate method found feasible and if the inaccuracy shall have resulted in an error more than three per cent (3%) in the measurement of gas, then the calculated deliveries of gas through such meter shall be adjusted to pay accuracy to compensate for such error. Such adjustment shall be made for each period of inaccuracy as may be definitely known, or if not known, then for one-half the period since the date of the last meter test. In no event, however, shall any correction extend back beyond one month from the date the error was first made known by either party hereto to the other. If any

meter registers within three per cent (3%) of accuracy. It shall be considered correct, but adjusted to register accurately.

5. PROCESSING CONSIDERATION:

As consideration for Processor's services of processing the gas to be delivered hereunder by Supplier for the recovery of commercial quantities of various hydrocarbons contained therein as hereinabove provided, the following shall be provided:

(1) During the period of payout, the Processor shall dedicate the entire net income of the plant (after deduction of the Federal Income Tax) towards the retirement of the net capital investment. As used herein "net income" shall not include any part of Processor's executive or general administrative salaries or expenses (except the applicable portion of the overhead expense of Processor's Houston, Texas office).

(2) When the total sum of the capital investment has been retired, the Supplier may elect as follows:

(a) to receive a percentage of the adjusted gross income of the plant, said percentage to be based on the figures appearing in the April 4, 1937 schedule established by the Natural Gas Association of America, which figures appear in the schedule marked Exhibit A, attached hereto and made a part hereof, or any amendments adopted by the Natural Gas Association of America to said schedule of April 4, 1937; or

(b) to be assigned, by the Processor, a forty-nine per cent (49%) working interest in the Yenter gasoline plant, including all the equipment and housing acquired thereunder and to participate to the extent of its ownership in the sale of the plant production, operating expenses and future capital expenditures.

It is expressly understood that if the Supplier elects 2(a) and if at any time it should be deemed necessary or advisable by the Processor to reimburse the Producer for hydrocarbons, which the Producer may elect not to remove from the gas stream delivered to the Supplier by the Producer, then the adjusted gross income of the plant shall have excluded from it an amount equal to the reimbursement made to the Producer by the Processor.

6. DETERMINATION OF PLANT SHRINKAGE:

Plant shrinkage shall be determined by mathematical calculations, and shall be the resultant of the product of the plant products recovered multiplied by mutually approved constants, to determine the equivalent gas volumes. The calculated equivalent gas volumes of liquid hydrocarbons recovered in Supplier's Yenter Compressor Station and delivered by Supplier to Processor's plant, as hereinafter provided for, shall be subtracted from the calculated equivalent volumes of plant shrinkage, as described above, to determine actual plant shrinkage.

7. REIMBURSEMENT FOR SHRINKAGE:

The actual plant shrinkage, calculated in accordance with the provisions of Article 6 above, shall be considered to be gas consumed in the operation of Processor's plant and for all gas so consumed Processor shall reimburse Supplier an amount equal to the cost of natural gas in the area to Supplier at the wellhead from time to time under Natural Gas Purchase Contracts wherein Supplier is "Buyer", (presently 14¢ per thousand cubic feet) plus one cent (1¢) per thousand cubic feet for gathering said gas. In this connection it is understood and agreed that as the cost of gas in the area to Supplier at the wellhead increases or decreases, the reimbursement to be made by Processor to Supplier for said gas shall be increased or decreased the identical amount. Any production, severance, gathering or sales tax or other excise taxes, or taxes or assessments of a similar nature imposed or levied on said gas before or at the time of its delivery to Processor shall also increase the amount of the reimbursement to be made by Processor to

Supplier for said gas by the amount of any such tax, so paid by Supplier.

Processor shall reimburse Supplier for condensed liquid hydrocarbons recovered in Supplier's Yenter Compressor Station and delivered by Supplier to Processor's plant. The volume of liquid shall be metered in the compressor station by a fluid meter, and suitable shrinkage and temperature correction factors shall be applied to the meter reading in calculating net stock tank oil volume at sixty degrees (60°) Fahrenheit. The reimbursement shall be equivalent to the posted price for crude oil at the site of the compressor station.

8. QUALITY:

Processor agrees that any gas processed by it shall have a heating value of not less than nine hundred and sixty (960) British Thermal Units per standard cubic foot at the tail gate of the plant.

9. STATEMENTS:

Processor shall furnish to Supplier, on or before the 25th day of each calendar month, a report or statement disclosing information necessary to enable Supplier to make reasonable and accurate statistical and accounting entries upon its books, concerning all phases of this agreement, related to the preceding month. Each party shall have the right, during reasonable hours, to examine the books, records, charts and original test data of the other party to the extent necessary to verify the accuracy of any statement, charge, credit, computation, test or delivery made pursuant to any provision hereof. If any such examination reveals any inaccuracy in any such statement, charge, credit, computation, test or delivery, the necessary adjustment shall be promptly made. Authorized representatives of Supplier shall have access to Processor's plant for any reasonable inspection or observation relevant to the performance of this agreement.

10. TAXES:

Supplier shall pay all severance and gathering taxes, assessments and other charges levied or assessed against the gas delivered by Supplier here-

under, and against Supplier's portion of the plant products, against Supplier's residue gas, and against the sale thereof, and all taxes and statutory charges levied or assessed against any of the Supplier's properties, facilities or operations. Processor shall pay all taxes and statutory charges levied or assessed against its plant facilities and operations, and that portion of any tax levied or assessed against and applicable to that portion of the plant products derived from Supplier's gas, which accrued to Processor under the provisions hereunder.

11. POSSESSION AND RESPONSIBILITY:

Neither Supplier nor Processor shall have any responsibility with respect to gas deliverable or delivered hereunder, plant products derived therefrom, and residue gas, or on account of anything which may be done, happen, or arise with respect thereto during such time as said gas, plant products, and residue gas is in the control and possession of the other party as hereinbefore provided.

In this connection it is understood and agreed that Supplier will furnish and install at a mutually agreeable point on its pipeline leading from its Yenter Compressor Station the block gate valve and two side gate valves necessary to deliver gas from said pipeline to Processor's plant and Processor will reimburse Supplier for the cost of the labor and materials required for such installation. Gas passing through the side gate valve upstream of said block gate valve shall be deemed to be in the control and possession of Processor within the meaning of this article until returned to Supplier's said pipeline through the side gate valve on the downstream side of said block gate valve.

12. WARRANTY:

Supplier warrants the title to all gas delivered by Supplier to Processor hereunder, the right to enter into this agreement with reference to such gas, and that such gas is free from all liens and adverse claims; and agrees, if notified thereof by Processor, to indemnify Processor against all suits, action, debts, accounts, damages, costs and expenses arising from and out of any

adverse legal claims any and all persons whomsoever to or against such gas and against the plant products derived therefrom. Supplier agrees to make settlement for all royalties and interests of third parties due and payable on the gas delivered to Processor hereunder, the liquid hydrocarbons extracted and saved therefrom, and the sale and disposition of the residue thereof, all in accordance with the terms of said lease, applicable instruments of title, and all amendments thereto; and Supplier agrees to hold Processor harmless from any and all claims or demands of mineral or royalty owners and third party claimants as to their respective said portions of said gas delivered hereunder.

13. FORCE MAJEURE:

In the event of any party hereto being rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than to make payments due hereunder, it is agreed that on such party giving notice and full particulars of such force majeure in writing or by telegraph to the other party as soon as possible after the occurrence of the cause relied on, then the obligations of the party giving such notice, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall as far as possible be remedied with all reasonable dispatch. The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints of governments and people, civil disturbances, explosions, breakage or accident to machinery, plant facilities, or lines of pipe, the necessity for making repairs to or alterations of machinery, plant facilities, or lines of pipe, freezing of wells or lines of pipe, partial or entire failure of wells, and any other causes, whether of the kind herein enumerated or otherwise, not within control of the party claiming suspension and which, by the exercise of due diligence, such party is unable to prevent or overcome. It is understood and agreed that the settlement of strikes and

lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirements that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

14. INSURANCE:

Processor agrees to purchase and maintain Workmen's Compensation Insurance in accordance with the laws of Colorado; adequate Public Liability, Property Damage Liability and Automobile Public Liability and Property Damage Insurance, and adequate and sufficient fire, windstorm and explosion insurance coverage of the facilities built by Processor hereunder.

15. TERM:

Subject to the other provisions hereof, this agreement shall be and remain in force and effect during the operation of the Supplier's pipe line or until such time as the Processor deems it uneconomical to continue processing gas at the Yenter plant.

16. RIGHT OF TERMINATION:

If the tested condensate and gasoline recovery of the gas delivered by the Supplier becomes sufficiently low as to be deemed uneconomical by the Processor to continue commercial extraction of hydrocarbons, and/or the volumes of gas delivered by the Supplier to the Processor shall be deemed insufficient by the Processor, or if for any other reason, the extraction of hydrocarbons in the plant should become uneconomical, then in any one of such events, the Processor shall have the option, exercised solely at its own discretion, of terminating this agreement upon sixty (60) days written notice of such termination by Processor to Supplier. If, however, the Supplier deems it advisable for its own interests to continue the operation of the plant, then Supplier may purchase from the Processor the plant facilities for fifty-one per cent (51%) of the value of the plant at the time of the purchase, or whatever sum there might be remaining unpaid to the Processor for the capital expenditure, whichever shall be the greater amount.

In the event neither Processor nor Supplier desires to continue operation of the plant, Processor shall dispose of it for its salvage value and if the pro-

ceeds derived from such disposition exceed the amount remaining unpaid to Processor for the capital expenditure, if any, such excess shall be divided fifty-one (51%) per cent to Processor and forty-nine per cent (49%) to Supplier.

17. LAWS AND REGULATIONS

This agreement and provisions hereof shall be subject to all applicable State and Federal laws, and all rules, regulations, orders, and directives of any Federal or State governmental authority, agency, commission, or regulatory body in connection with any and all matters and things under or incident to this agreement.

18. PRIOR OPTION TO PURCHASE PRODUCTS

It is understood that Supplier or one or more of its customers may from time to time desire to have Liquefied Petroleum Gas available as a substitute for or as a supplement to Supplier's natural gas service in emergency situations. It is therefore understood and agreed that Supplier shall have the prior right and option, exercisable at any time and from time to time to purchase all or a part of the liquid hydrocarbons extracted from gas furnished by Supplier in Processor's Yenter plant at the price at which Processor is then offering to sell same.

19. REDELIVERY PRESSURE AND DEWPOINT

Processor agrees to install facilities in its plant which are capable of performing the extraction contemplated herein and which will not result in a pressure drop of said gas in excess of twenty (20) pounds per square inch gauge through Processor's plant.

Processor further agrees that all gas redelivered by it to Supplier shall not have a dew point in excess of twenty-five degrees (25°) Fahrenheit at a pressure of eight hundred (800) pounds per square inch gauge.

20. MISCELLANEOUS

No waiver by either party of any one or more defaults by the other in the performance of this agreement shall operate or be construed as a waiver of any future default or defaults, whether of a like or of a different character.

This agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors, and assigns of the respective parties hereto.

Any notice, request, demand, statement or bill provided for in this contract shall be in writing directed to the party to whom given, made or delivered at such party's address as follows:

SUPPLIER Kansas-Nebraska Natural Gas Company, Inc.
100 North St. Joseph Avenue
Hastings, Nebraska

PROCESSOR Ginther, Warren & Ginther
174 Esperson Building
Houston, Texas

or at such other post office address as such party shall, from time to time, designate as the address for such purpose by registered letter addressed to the other party.

IN WITNESS WHEREOF, this instrument is executed as of the date first above mentioned.

ATTENT:

Frank C. Gifford
Assistant Secretary

KANSAS-NEBRASKA NATURAL GAS
COMPANY, INC.

W. L. Ginter
President

PROCESSOR

W. L. Ginter
W. L. Ginter

W. L. Ginter
W. L. Ginter

W. L. Ginter
W. L. Ginter

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STATE OF NEBRASKA)
) ss
COUNTY OF ADAMS)

The foregoing instrument was acknowledged before me this 2nd day
of January, 1954, by S. D. Whiteman, President of KANSAS-
NEBRASKA NATURAL GAS COMPANY, INC.

Witness my hand and notarial seal the date last aforesaid.

E. J. Jackson
Notary Public

My Commission expires:

July 10, 1958

STATE OF TEXAS)
) ss
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before me this 1st day
of February, 1954, by N. C. GINTHER, H. C. WARREN and W. I.
GINTHER.

WITNESS my hand and official seal.

E. J. Jackson
Notary Public

My Commission Expires:

February 1, 1955

GAS PROCESSING, INC., and GRIFFIN

SUPPLEMENT NO. 2 TO
GAS PROCESSING AGREEMENT

Supplement No. 1 was entered into effective the 15th day of February, 1954 by and between KANSAS-NEBRASKA NATURAL GAS COMPANY, INC., hereinafter called "Supplier" and NOBLE C. GINTHER, M. C. WARREN and W. L. WINIFER, hereinafter designated as "Processor".

WHEREAS, Supplier and Processor have heretofore entered into that certain "Gas Processing Agreement" dated January 15, 1954 providing for the building of a plant for extracting certain of the hydrocarbons contained in the gas gathered in the Yenter Field, Logan County, Colorado, said plant being hereinafter referred to as the "Yenter Plant"

WHEREAS, by Assignment dated and effective April 26, 1954, the parties heretofore designated as Processor did assign and convey to Leo A. Yenter and Rachel P. Yenter, jointly, a 4.60th interest and to Ben D. Elliott a 1.40th interest in and to said Plant and all rights, titles and interests created under or by virtue of the Gas Processing Agreement of January 15, 1954, but subject thereto and

WHEREAS, by instrument dated and effective November 1, 1954, Supplement No. 1 to said Gas Processing Agreement was executed by Supplier and all of the then Processors and

WHEREAS, the parties herein designated as Processor, as first above provided, are the record owners of the remaining 11.12th interest in and to said Plant and the Gas Processing Agreement of January 15, 1954, as supplemented, and as such do desire to execute this instrument to be designated as Supplement No. 2 under said Gas Processing Agreement insofar as their interest in said Agreement is concerned, for the purpose of providing herein for the enlargement of certain existing facilities so as to provide for the processing of gas from the Lewis Creek Pool and West Pools Pool, Logan County, Colorado.

NOW, THEREFORE, it is hereby understood and agreed as follows:

1. In consideration of the execution of this Agreement by Processor, Supplier has granted, and does hereby grant to Processor the exclusive right to process all of the gas purchased by Supplier from Lewis Creek Field and West Peats Field in Logan County, Colorado. However, the rights hereby granted to Processor with respect to said gas shall not attach until Processor shall have installed all of the facilities necessary to exercise the rights granted hereby.

2. In consideration of the execution of this Agreement by Supplier, Processor hereby agrees to proceed immediately with the construction and installation of a processing plant capable of processing the gas purchased by Supplier from the Lewis Creek and West Peats Fields. The design of said plant, its processing capacity, the pressure drop of gas passing through it, the cost of said plant and all other details and specifications in connection with the design and construction thereof shall be in accordance with the Proposal of Russell Engineering Corporation No. 15-16 dated November 28, 1955, as may be revised, supplemented or amended by mutual agreement of the parties hereto hereafter, a copy of which original Proposal, marked exhibit "A", is attached hereto and made a part hereof.

Said plant shall be constructed on a site in the NE-1/4 of Section 11, Township 11 North, Range 53 West, Logan County, Colorado. In addition to constructing said Plant per said Proposal, Processor further agrees to provide the necessary electrical equipment and water supply for said Plant. Processor also agrees to provide any storage facilities required for said Plant by constructing same at the above described site.

3. It is further understood and agreed that the above described plant and facilities shall, for the purposes of this Agreement, be considered and treated as an enlargement of the Yontar Plant within the provisions of Section 21 of the Gas Processing Agreement of January 13, 1954 and all

other terms thereof, as clarified and amended by letter dated April 6, 1954 to Processor from Thos. Croigh, Jr., Vice President of Kansas-Nebraska Natural Gas Company, Inc. and Supplement No. 1 thereto dated November 1, 1954, and the construction and operation of said plant and facilities shall be in accordance with the terms of each and all of said instruments; however, the facilities provided for herein, all operations connected therewith, as well as all right granted hereby shall be owned and conducted by those parties herein designated as Processor, and then only, the same as if that Agreement dated April 26, 1954, as heretofore described, had not been executed, and the terms and provisions of said Gas Processing Agreement, as heretofore amended and supplemented, are referred to herein for the manner, terms and conditions under which the plant provided for hereinabove shall be constructed.

IN WITNESS WHEREOF, this instrument is executed as of the date first above mentioned.

ATTENT

KANSAS-NEBRASKA NATURAL GAS
COMPANY, INC. - SUPPLIER

Assistant Secretary

By

President

H. C. Glather

H. C. Warren

W. L. Glather

PROCESSOR

STATE OF NEBRASKA)
COUNTY OF ADAMS) ss

The foregoing instrument was acknowledged before me this 30th day of January, 1956, by S. D. WHITMAN, President of KANSAS-NEBRASKA NATURAL GAS COMPANY, INC., a Corporation.

WITNESS my hand and official seal.

[Signature]
Notary Public

My Commission Expires: _____

STATE OF _____)
COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1956, by M. C. GINTHER.

WITNESS my hand and official seal.

My Commission Expires: _____

[Signature]
Notary Public

STATE OF _____)
COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1956 by H. C. WARREN.

WITNESS my hand and official seal.

[Signature]
Notary Public

My Commission Expires: _____

STATE OF _____)
COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1956 by W. L. GINTHER.

WITNESS my hand and official seal.

[Signature]
Notary Public

My Commission Expires: _____

L. D. SHIPP
NOTARY PUBLIC
HARRISBURG, ILL.