

JOINT VENTURE AGREEMENT

THIS AGREEMENT, made and entered into this 13th day of July, 1984, by and between HG&G, Inc. (hereinafter referred to as "HG&G" and/or "Operator"), whose address is 3131 Liberty Tower, 100 Broadway, Oklahoma City, Oklahoma 73102, and L. Ron Hubbard (hereinafter referred to as "Hubbard" and/or "Nonoperator"), whose address is c/o Peter Blecha, P. O. Box 29550, Los Angeles, California 90029. HG&G and Hubbard are sometimes referred to herein as the "Joint Venturers."

SECTION I: SCOPE OF VENTURE

1.1 Scope. Hubbard and HG&G hereby enter into this Joint Venture Agreement (the "Agreement"), for the purpose of drilling, developing and producing oil and gas under Leases and other agreements, and treating, transporting and marketing production therefrom and sharing in income and expense related thereto (the "Joint Venture").

SECTION II: CERTAIN DEFINITIONS

2.1 "Affiliate shall mean (1) Any person or entity directly or indirectly controlling, controlled by or under common control with any other person or entity; (2) a person or entity owning or controlling ten per cent (10%) or more of the outstanding voting securities of any other entity; (3) any officer, director or partner of an entity; or (4) entities which have a common officer or director.

2.2 "Drilling and Completion Costs" shall mean all tangible and intangible costs of drilling, testing, completing and equipping a Well for production or plugging and abandoning it including, but not limited to, the costs of location and surface damages, cementing, casing, drilling mud and chemicals, drill stem tests and core analyses, engineering and Well site geological expenses, electric logs, footage and day work Drilling Costs, reasonable Drilling Costs paid under turnkey contracts, all expenses incurred in completing or testing for production any Well, or plugging and abandoning any Well participated in by the Joint Venturers, the cost of equipment purchased for the Joint Venturers, the cost of all downhole or surface equipment which is used or installed in connection with the drilling, testing, completion or production of any Well participated in by the Joint Venturers and reimbursements and compensation to Well operators, including HG&G, if it serves as unit operator.

2.3 "Casing Point" shall mean that point in time when a Well has been drilled to its objective depth and/or the objective formation and all tests and analyses of such

testing information have been completed and the Operator must make a decision whether to attempt completion of the Well or to plug and abandon the Well at that point.

2.4 "Leases" shall mean full or partial interests in oil and gas leases, oil and gas mineral rights, fee rights, or other rights authorizing the owner thereof to drill for, reduce to possession and produce oil and gas.

2.5 "Lease Acquisition Costs" shall mean the sum of (1) the amounts paid by HG&G to unaffiliated third parties for the property, including bonuses; (2) title insurance or title examination costs, third party commissions, finder's fees, filing fees, recording costs, transfer taxes, if any, and like charges in connection with the acquisition of the property; (3) rentals and ad valorem taxes paid with respect to the property to the date of its transfer to this Joint Venture; (4) interest on funds used to acquire or maintain the property; and (5) a portion of HG&G's reasonable, necessary and actual direct expenses for geological, geophysical, seismic, land, engineering, drafting, accounting, legal and other like services, including a share of salaries and expenses, allocated to such property in accordance with generally accepted and customary industry practices.

2.6 "Operating Agreement" shall mean any agreement between two or more owners of oil and gas Leases providing for the operation of the Leases with all Lease owners sharing the costs and designating which owner shall be the operator.

2.7 "Operating Costs" shall mean recurring costs incurred in producing and marketing oil and gas from Wells, including labor, fuel, repairs, hauling, materials, supplies, utility charges, taxes, direct and indirect reimbursements and compensation to well operators or others for services rendered in conducting such operations.

2.8 "Overriding Royalty Interest" shall mean an interest, other than the landowners' royalty, in the oil and gas produced from Joint Venture Prospects that has been carved out of the Working Interest owned by the Joint Venture and that is received free and clear of all costs of development, operation or maintenance.

2.9 "Completion" shall mean that time during the life of a Well when said Well has been made ready for production.

2.10 "Prospects" shall mean the acreage comprising the oil and gas and mineral Lease properties (and any Leases that are pooled or unitized therewith) in which the Joint Venturers shall acquire an interest pursuant hereto as described in Exhibit A attached hereto and made a part hereof.

2.11 "Carried Working Interest" shall mean the twelve and one-half per cent (12.5%) interest retained by HG&G in each Prospect. The Carried Working Interest of HG&G shall vest in favor of HG&G on each Lease comprising the spacing unit of each well upon said well being completed for production and shall be proportionately reduced to the extent the Joint Venturers acquire less than one hundred per cent (100%) of the Working Interest in each Lease comprising a Prospect.

2.12 "Rework Costs" shall mean all costs of additional equipping, reworking, plugging back, deepening, repairing or performing remedial work of any type on initial Wells or subsequent Wells.

2.13 "Wells" shall mean the initial Wells to be drilled in the exploration of oil and gas on the Prospects, and any Wells drilled thereon in the development of such Prospects.

2.14 "Working Interest" shall mean an operating interest in an oil and gas leasehold or mineral estate, the owner of which has the right to share in production or revenues from production of any hydrocarbons covered by the leasehold or mineral estate and has a proportionate interest in any Well located on the lands covered by the leasehold or mineral estate and all equipment located therein or used in connection therewith, subject to the payment of its proportionate share of all costs and expenses to be paid by the lessee in connection with exploration, development and operation of any Wells on the leasehold or mineral estate.

SECTION III: OPERATIONS

3.1 General. Operator shall have exclusive control of the conduct of the drilling, developing and producing operations on all Leases covered by this Agreement. All such operations shall be conducted in an efficient and workman-like manner and in accordance with standard oil field practices; provided, however, that Operator shall never be liable to Nonoperator for any loss suffered that arises out of any action or inaction of the Operator if the Operator in good faith determines that such course of action is in the best interest of the parties hereto, and the Operator is not grossly negligent. Operator shall keep Nonoperator generally advised of all activities of the Joint Venture and shall furnish to Nonoperator all information concerning such activities that Nonoperator shall reasonably request.

3.2 Operating Agreements: All operations hereunder until termination of the Joint Venture shall be conducted pursuant to the provisions of an Operating Agreement (a form of which is attached as Exhibit B hereto) as modified by this Agreement. After termination of the Joint Venture as to such Prospects, or after the completion of an initial producing Well on a Prospect, operations shall be conducted under the terms of the Operating Agreement specified above

or under a separate Operating Agreement executed specifically for the initial producing unit and/or any subsequent Wells on the spacing unit.

3.3 Delegation. The Operator shall designate the party who will conduct actual drilling and producing operations for the Joint Venture. The Operator may delegate Well supervision responsibilities to itself, any other Affiliate or any third party; provided the Operator shall not designate any Affiliate to render drilling and production services for the Joint Venture unless the compensation to be paid such Affiliate is competitive with the compensation paid others for the same or similar services in the area of operations. Further, there shall be no duplication of such fees.

3.4 Assignments. As soon as practical after completion of an initial test Well on a Prospect and after any "forced pooling" matters have been resolved, HG&G shall provide each Joint Venturer with an assignment of its respective interest in the Prospect. Such assignments shall be in recordable form and shall reflect each Joint Venturer's interest in the oil and gas Leases comprising the Prospect, proportionately reduced to the net interest covered by the Leases and burdened by each Joint Venturer's share of the one and one-half per cent (1-1/2%) Overriding Royalty Interest retained by HG&G for the benefit of its employees and the twelve and one-half per cent (12.5%) Carried Working Interest retained by HG&G which interests shall be proportionately reduced to the extent the Joint Venturers acquire less than one hundred per cent (100%) of the Working Interest in the Leases.

3.5 Geological Description. As soon as possible after the execution of this Agreement, a deal summary for each Prospect shall be prepared by Operator and delivered to the Nonoperator. Included in the deal summary shall be a geological plat of the Prospect area, a geological discussion of the acreage described in the plat, a land plat describing this Joint Venture's current acreage position, Lease expiration dates, each Joint Venturer's Working Interest (adjusted for any changes occurring since the date of this Agreement) and, if available, a copy of the drilling title opinion.

3.6 Area of Mutual Interest. An area of mutual interest shall be established between the Joint Venturers and shall be designated as the area within the blue line border on the geological plat provided for each Prospect. Any Lease, including any extension or renewal of an existing Lease, by "forced pooling" or otherwise, acquired after commencement of the initial test Well on a Prospect by a Joint Venturer within the area of mutual interest shall be offered pro rata to the remaining Joint Venturers at such acquiring Joint Venturer's Lease Acquisition Cost. Such Leases shall be burdened by the same Overriding Royalty

Interests, Reversionary Interests and other economic interests that burden the Leases comprising the remainder of the Prospect. The area of mutual interest may be expanded, contracted or eliminated at any time by the mutual consent of the Joint Venturers and shall expire six (6) months after the Leases comprising the Prospects have expired or have otherwise been disposed of by the Working Interest owners.

SECTION IV: ALLOCATION OF REVENUES AND COSTS

4.1 General. In general, Nonoperator agrees to purchase through this Joint Venture twenty-five per cent (25%) of Operator's interest in each of the Prospects set forth in Exhibit A and to pay all Lease Acquisition Costs of the Prospect and all Drilling and Completion Costs of the initial Well proposed on the Prospect. The remaining seventy-five per cent (75%) of the Operator's interest in the Prospects that has not been acquired by the Nonoperator shall not be considered to be included in this Joint Venture and shall remain the sole property of Operator who may retain, sell or otherwise dispose of all or a part of such remaining interest. In the event the Working Interest acquired by the Operator varies from the estimated amount set forth in Exhibit A, due to subsequent acreage acquisition or change in acreage amounts due to resolution of "forced pooling" matters, title problems or otherwise, Nonoperator's Working Interest acquired from Operator shall be proportionately increased or reduced to reflect such changes.

4.2 Allocation of Costs. Unless modified by a subsequent written agreement between Operator and Nonoperator, costs of this Joint Venture shall be allocated as follows:

- (a) Lease Acquisition Costs. Lease Acquisition Costs attributable to the Working Interest acquired through this Joint Venture by the Nonoperator in the Leases comprising a Prospect as set forth in Exhibit A, shall be allocated to and borne one hundred per cent (100%) by Nonoperator;
- (b) Drilling and Completion Costs. Drilling and Completion Costs, attributable to the Working Interest acquired through this Joint Venture by the Nonoperator as set forth in Exhibit A for each initial Well and each subsequent Well in which the Nonoperator participates pursuant to Article VI herein, shall be allocated to and borne one hundred per cent (100%) by Nonoperator.
- (c) Operating Costs and Rework Costs. Operating Costs and any Rework Costs attributable to the Working Interest in each Well acquired by the Nonoperator as set forth in Exhibit A shall be allocated to

and borne eighty seven and one-half per cent (87.5%) to Nonoperator and twelve and one-half per cent (12.5%) to Operator to the extent such Operating Costs are incurred after the well is made ready for production either into the tanks or pipeline.

In the event Nonoperator's share of actual Drilling Costs exceeds the estimates set forth in Exhibit A, Nonoperator shall be obligated to pay such actual amounts for any Wells other than Wells participated in by Nonoperator on a "turnkey" to Casing Point basis. Nonoperator shall not be obligated to pay any Drilling Costs incurred before Casing Point in excess of the amounts set forth in Exhibit A for any well in which Nonoperator participates on a "turnkey" to Casing Point basis. Nonoperator shall be obligated to pay his share of all actual Completion Costs, attributable to his Working Interest in each Well, incurred after Casing Point on Wells in which a completion attempt is made.

4.3 Management Fee. Nonoperator shall be allocated and shall pay to Operator a fee equal to eight per cent (8%) of all Prospect costs other than Operating Costs and any delay rentals paid on Leases comprising a Prospect, in consideration of management services to be provided by Operator in 1984. This fee has been included in the figures shown in Exhibit A.

4.4 Allocation of Revenues. Unless modified by a subsequent written agreement between Operator and Nonoperator, revenues of this Joint Venture shall be allocated as follows:

- (a) Oil and Gas Production Revenue. Oil and gas production revenue from each Well, attributable to the actual Working Interest acquired by the Nonoperator through this Joint Venture as set forth in Exhibit A, shall be allocated eighty-seven and one-half per cent (87.5%) to Nonoperator and twelve and one-half per cent (12.5%) to Operator.

4.5 Overriding Royalty Interest. HG&G will retain, for the benefit of its employees, a one and one-half per cent (1-1/2%) Overriding Royalty Interest in each Prospect, proportionately reduced according to the interest of the Joint Venturers in each Prospect.

SECTION V: PAYMENT OF COSTS

5.1(a) Drilling and Completion Costs. Approximately two weeks prior to the scheduled commencement date of each Well, Operator shall prepare and send to Nonoperator an

invoice reflecting Nonoperator's share of the estimated Drilling Costs (including the Management Fee set forth in Section 4.3 hereof) of the Well.

5.1(b) Lease Acquisition Costs. Within ten (10) days of the execution of this Agreement, Operator shall prepare an invoice reflecting Nonoperator's total estimated Lease Acquisition Costs (including the Management Fee on the Lease Acquisition Costs) for the total program.

5.1(c) Cost Overruns and Rework Costs. Any remaining amounts necessary for the completion of Joint Venture operations due to cost overruns on non-turnkeyed Wells, completion attempts or otherwise, including any Rework Costs, shall be paid upon call by the Operator.

5.1(d) Refund for Overpayment of Costs. Operator shall refund to Nonoperator: (i) any Lease Acquisition Costs paid by Nonoperator in excess of Nonoperator's share of actual Lease Acquisition Costs; (ii) any estimated Drilling Costs paid by Nonoperator on a Well (other than a Well in which Nonoperator participates on a "turnkey" to Casing Point basis) in excess of Nonoperator's share of the actual Drilling Costs incurred on a Well; or (iii) any estimated Completion Costs paid by Nonoperator in excess of Nonoperator's share of the actual Completion Costs incurred on a Well. In lieu of a cash refund, Nonoperator may elect to have such funds credited to his account for expenditure on other Joint Venture Wells, or at the request of Nonoperator, Operator may reimburse said overpayment as an advance on production revenue.

5.2 Time of Payment. Payments of Nonoperator's acreage cost or estimated Drilling Costs for each initial Well shall be made immediately upon receipt of an invoice from Operator.

5.3 Separate Accounts. At the request of Nonoperator, all costs paid pursuant to this Section V will be placed in a separate account designated for the payment of Nonoperator's costs attributable to this Joint Venture.

5.4 Insurance. Operator shall make available to Nonoperator participation in Operator's well blowout insurance program on a cost basis, for any Well other than Wells in which Nonoperator participates on a "turnkey" to Casing Point basis.

SECTION VI: SUBSEQUENT WELL RECOMMENDATIONS

6.1 Subsequent Wells. In the event HG&G shall recommend to the Nonoperator that an additional Well be drilled on a Prospect after completion of the initial test Well, the recommendation shall be accompanied by a description of the location of the proposed Well and an estimate of the total costs of the subsequent Well.

Nonoperator agrees to respond to HG&G within twenty (20) business days from the date of receipt of notice from HG&G, or within seven (7) business days in the event HG&G shall deem time to be of the essence with its election either to consent to participate in such Well and to pay within this same time frame its proportionate share of the estimated Drilling and Completion Costs of the Well or to decline to participate in the Well.

6.2 Completion Attempts. In the event HG&G shall recommend to the Nonoperator that a completion attempt be made on a subsequent Well, Nonoperator agrees to respond to HG&G within seventy-two (72) hours from the time of receipt of oral or written notice from HG&G, with its election either to consent to participate in such completion operation and to pay its proportionate share of the estimated Completion Costs or to decline to participate in the completion attempt.

6.3 Penalty for Nonconsent. If the Nonoperator elects not to participate in the subsequent Well or not to participate in the completion attempt of the subsequent Well, the Nonoperator agrees to reassign and/or quit claim to HG&G all right, title and interest in the spacing unit of the Well. Nonoperator shall be relieved of all cost and liability in connection with any proposed Well or completion operation in which it shall elect not to participate. In the event the proposed Well is an additional Well to be drilled on an existing spacing unit, then each non-participating Joint Venturer shall reassign and/or quit claim to HG&G all interest in the subdivision of the producing unit to be attributed to the proposed test. In addition, should a subsequent well be proposed under an existing farmout, and should said well be an earning well under said farmout, the party electing not to participate will have thereby forfeited the entire interest in the drilling unit, as well as one-half (1/2) of the original interest in all acreage subject to the farmout. This forfeiture will serve to reduce the participant's interest by fifty per cent (50%) upon each election not to participate under the terms of a specific farmout. Failure to notify HG&G within the prescribed time shall constitute an election by the party NOT to participate. A Joint Venturer who fails to pay within the above time frame his share of the estimated Drilling Costs on subsequent Wells or of any the estimated Completion Costs, if a mutual decision to set production casing for further testing has been reached, in advance, shall, at HG&G's option, be EXCLUDED from participation in the proposed Well and in the spacing unit on which the Well is to be drilled.

SECTION VII: INDEPENDENT ACTIVITIES

7.1 General. Notwithstanding the existence of this Agreement, the Operator may engage in whatever activities he chooses, whether the same be competitive with the Joint

Venture or otherwise without having or incurring any obligation to offer any interest in such activities to any party hereto. Neither this Agreement nor any activity undertaken pursuant hereto shall prevent the Operator from engaging in the exploration for and production of oil, gas and other minerals individually, jointly with others, or as a part of any other association to which the Operator is or may become a part, in any locale and in fields or areas of operations in which the Joint Venture may likewise be active, or require the Operator to permit the Nonoperator, any limited partnership, or Affiliate of the Nonoperator to participate in any of the foregoing and as a material part of the consideration for the Operator's execution thereof, Nonoperator and such affiliates hereby waive, relinquish and renounce any right or claim of participation.

SECTION VIII: ALLOCATION AND ELECTIONS

8.1 General. It is not the purpose or the intention of the parties hereto to create any partnership, mining partnership or other association and neither this Agreement nor the authorization hereunder shall be construed as creating any such relationships. Furthermore, nothing in this Agreement shall be construed as providing directly or indirectly for any joint cooperative refining or marketing or sale of any party's interest in oil and gas or products therefrom.

SECTION IX: TERMINATION

9.1 General. This Joint Venture Agreement shall terminate no later than December 31, 1988, and may be terminated as of an earlier date providing the Joint Venturers hereto agree that drilling as provided for under the Agreement has been completed.

9.2 Discharge From Liability. Termination of the Joint Venture shall not discharge any party from liability or deprive any party of a right accrued before termination.

SECTION X: TRANSFER OF WORKING INTERESTS

10.1 Transfer of Working Interests. Nonoperator's Working Interests acquired pursuant to this Agreement shall be nontransferable except transfers to, or with the consent of, the Operator. No Working Interest acquired pursuant to this Agreement shall be sold or transferred in the absence of (i) an effective registration under the Securities Act of 1933, as amended, and under applicable state securities laws, or an opinion of counsel acceptable to the Operator that such registration is not required; and (ii) a private ruling from the Internal Revenue Service or an opinion of counsel acceptable to the Operator that such sale or transfer will not result in this Joint Venture being held to constitute an association taxable as a corporation for federal income tax purposes.

Notwithstanding any provision herein to the contrary, Hubbard shall be authorized to transfer all or any portion of his Working Interests acquired pursuant to this Agreement to the Ron L. Hubbard revocable family trust.

Any transfer permitted hereunder shall be effective as of midnight of the last day of the calendar month in which it is made. Any such transfer shall further be subject to the requirements of any applicable securities laws, and no such transfer, including a transfer of less than all of a party's rights hereunder or the transfer of rights hereunder to more than one party, shall relieve the transferor of his responsibility for his proportionate part of any expenses, obligations and liabilities hereunder related to the interest so transferred, whether arising prior, or subsequent, to such transfer, nor shall any such transfer require an accounting by the Operator or the granting of rights hereunder as between such parties and the remaining parties hereto, including the exercise of any elections hereunder, to more than one party unanimously designated by the transferees and, if he should have retained an interest hereunder, the transferor. Until a proper designation acceptable to it is received by the Operator, it shall continue to account only to the person to whom it was furnishing notices prior to such time pursuant to Section 11.1 of this Agreement, and such party shall continue to exercise all rights applicable to the entire interest previously owned by the transferor.

10.2 Transfer of the Operator's Working Interest. The Operator is hereby authorized to sell or assign a portion of its Working Interest acquired pursuant to this Agreement to any third party on any terms it sees fit.

SECTION XI: NOTICE

11.1 General. All notices and waivers required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered personally with receipt acknowledged or sent by registered or certified mail, return receipt requested, postage prepaid, addressed to the parties at the respective addresses set forth below:

If to Nonoperator:

L. Ron Hubbard
c/o Peter Blecha
P. O. Box 29550
Los Angeles, California 90029

If to Operator:

HG&S, Inc.
3131 Liberty Tower
100 Broadway
Oklahoma City, Oklahoma 73102

Except as otherwise expressly provided herein, all communications hereunder shall be deemed to be given, received and dated on the earlier of the date then delivered personally or by mail, the third day after such communication has been mailed as aforesaid. Any party may change his address for the purposes hereof by notice given to the other parties in the foregoing manner provided that no change of address shall be effective until actually received by the addressees thereof.

11.2 Applicable Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Oklahoma with venue thereof being in Oklahoma County, Oklahoma. All sums payable hereunder to Operator shall be paid in Oklahoma City, Oklahoma.

SECTION XII: MISCELLANEOUS

12.1 Representations. Nonoperator represents and warrants that:

- (a) He had gross individual income in excess of \$200,000 in the two most recent years and reasonably expects an income in excess of \$200,000 in the current year; or he is a person who has a net worth (exclusive of home, furnishings, and automobiles) in excess of \$1,000,000.
- (b) He is aware that as a joint interest owner hereunder, he does not have limited liability, but may be jointly and severally liable for all obligations of the Joint Venture and does not have the same rights as a stockholder in a corporation or the protection which stockholders might have.
- (c) He recognizes the speculative nature and risk of loss associated with oil and gas investments and that he may suffer a complete loss of his investment. The interest subscribed for constitutes an investment which is suitable and consistent with his investment program and that his financial situation enables him to bear the risks of this investment.
- (d) He confirms that in making his decision to invest in this Joint Venture he has relied upon independent investigations made by him or his representatives, including his own professional, tax and other advisors, and that he and such representatives have been given the opportunity to examine all documents and to ask questions of, and to receive answers from, HG&G or any person(s) acting on its behalf concerning the terms and conditions of the investment, and to obtain any additional information, to the extent HG&G possesses such information or can acquire it without unreasonable effort or expense, necessary

to verify the accuracy of the information provided.

- (e) He understands that the Working Interests are being offered and sold under an exemption from registration provided by the Securities Act of 1933, as amended (the "Act"), and warrants and represents that any Working Interests subscribed for are being acquired by the Nonoperator solely for his own account, for investment purposes only, and are not being purchased with a view to or for the resale, distribution, subdivision or fractionalization thereof; the undersigned has no agreement or other arrangement, formal or informal, with any person to sell, transfer or pledge any part of any Working Interests subscribed for or which would guarantee the undersigned any profit or protect the undersigned against any loss with respect to such Working Interest; the Nonoperator has no plans to enter into any such agreement or arrangement, and, consequently, he must bear the economic risk of the investment for an indefinite period of time because the Working Interests cannot be resold or otherwise transferred unless subsequently registered under the Act (which neither HG&G nor the Joint Venture is obligated to do), or an exemption from such registration is available and, in any event, unless transferred in compliance with this Agreement.

EXECUTED THIS 13th day of July, 1984.

OPERATOR

HG&G, INC.

By Jerry K. Greer
Jerry K. Greer, Vice President

STATE OF Oklahoma)
COUNTY OF Oklahoma) SS:

I, Carri S. [Signature], a Notary Public within and for said County and State aforesaid, duly commissioned and acting, do hereby certify that on this 13th day of July, 1984 personally appeared before me Jerry K. Greer, the undersigned officer in the foregoing instrument, to me personally known to be the Vice President of HG&G, Inc., and the person, being authorized so to do, who signed said instrument, who, being by me duly sworn and being informed of the contents of said instrument stated and acknowledged on oath that he signed, executed, sealed and delivered same.

H G & G, INC.
3131 LIBERTY TOWER
OKLAHOMA CITY, OKLAHOMA 73102

A C C O U N T S R E C E I V A B L E
S T A T E M E N T

Author Services Inc.
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07/13/84

1984 Joint Venture Program - - - - - \$750,000.00
Earnest Money