
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to

Commission file number: 001-33631

Quicksilver Gas Services LP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

56-2639586

(I.R.S. Employer Identification No.)

777 West Rosedale, Fort Worth, Texas

(Address of principal executive offices)

76104

(Zip Code)

817-665-8620

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant has 12,269,714 Common Units, and 11,513,625 Subordinated Units outstanding as of October 31, 2008.

DEFINITIONS

As used in this report, unless the context otherwise requires:

“**Bbl**” or “**Bbls**” means barrel or barrels

“**Btu**” means British Thermal units, a measure of heating value

“**LIBOR**” means London Interbank Offered Rate

“**Management**” means management of the Partnership’s General Partner

“**MMBtu**” means million Btu

“**MMBtud**” means million Btu per day

“**Mcf**” means thousand cubic feet

“**MMcf**” means million cubic feet

“**MMcfd**” means million cubic feet per day

“**MMcfe**” means million cubic feet of natural gas equivalents, determined by using the ratio of one Bbl of oil or NGLs to six Mcf of gas

“**MMcfd**” means MMcfe per day

“**NGL**” or “**NGLs**” means natural gas liquids

COMMONLY USED TERMS

Other commonly used terms and abbreviations include:

“**FASB**” means the Financial Accounting Standards Board, which promulgates accounting standards

“**IPO**” means our initial public offering completed on August 10, 2007

“**Gas Gathering and Processing Agreement**” means the Sixth Amended and Restated Gas Gathering and Processing Agreement, dated September 1, 2008, among Quicksilver Resources Inc., Cowtown Pipeline Partners L.P. and Cowtown Gas Processing Partners L.P.

“**Lake Arlington Gas Gathering Agreement**” means the Amended and Restated Gas Gathering Agreement, dated September 1, 2008, among Quicksilver Resources Inc. and Cowtown Pipeline L.P. and then assigned to Cowtown Pipeline Partners L.P.

“**Omnibus Agreement**” means the Omnibus Agreement, dated August 10, 2007, among Quicksilver Gas Services LP, Quicksilver Gas Services GP LLC and Quicksilver Resources Inc.

“**Partnership Agreement**” means the Second Amended and Restated Agreement of Limited Partnership of Quicksilver Gas Services LP, dated February 19, 2008

“**Quicksilver**” means, unless the context otherwise requires, Quicksilver Resources Inc. and its subsidiaries

“**Quicksilver Counties**” means Hood, Somervell, Johnson, Tarrant, Hill, Parker, Bosque and Erath Counties in North Texas

“**SEC**” means the United States Securities and Exchange Commission

“**SFAS**” means Statement of Financial Accounting Standards issued by the Financial Accounting Standards Board

Explanatory Note

On August 10, 2007, we completed our IPO, of 5,000,000 common units representing limited partnership interests. On September 7, 2007, we sold an additional 750,000 common units upon the exercise by the underwriters of the IPO of an over-allotment option that we had previously granted to them.

Upon the completion of the IPO on August 10, 2007, our common units began trading under the ticker symbol “KGS” and we succeeded to the assets and operations of Cowtown Pipeline LP, Cowtown Pipeline Partners LP, Cowtown Gas Processing LP and Cowtown Gas Processing Partners LP, which we refer to collectively as the KGS Predecessor. Prior to the completion of the IPO, KGS Predecessor was owned indirectly by Quicksilver Resources Inc., which we refer to as Quicksilver or the Parent, and by two private investors.

The information contained in this report includes the activity of KGS Predecessor prior to the completion of the IPO on August 10, 2007, and the activity of Quicksilver Gas Services LP subsequent to the IPO. Consequently, the unaudited condensed consolidated interim financial statements and related discussion of financial condition and results of operations contained in this report reflect the activity for the period after the change in ownership resulting from the IPO and the period prior to the IPO.

The information contained in this report should be read in conjunction with the information contained in our 2007 Annual Report on Form 10-K.

Forward-Looking Information

Certain statements contained in this report and other materials we file with the SEC, or in other written or oral statements made or to be made by us, other than statements of historical fact, are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect our current expectations or forecasts of future events. Words such as “may,” “assume,” “forecast,” “position,” “predict,” “strategy,” “expect,” “intend,” “plan,” “estimate,” “anticipate,” “believe,” “project,” “budget,” “potential,” or “continue,” and similar expressions are used to identify forward-looking statements. Forward-looking statements can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- changes in general economic conditions;
- fluctuations in natural gas prices;
- failure or delays in the Parent and third parties achieving expected production from natural gas projects;
- competitive conditions in our industry;
- actions taken or non-performance by third-parties, including suppliers, contractors, operators, processors, transporters and customers;
- changes in the availability and cost of capital;
- operating hazards, natural disasters, weather-related delays, casualty losses and other matters beyond our control;
- construction costs or capital expenditures exceeding estimated or budgeted amounts;
- the effects of existing and future laws and governmental regulations; and
- the effects of future litigation.

The list of factors is not exhaustive, and new factors may emerge or changes to these factors may occur that would impact our business. Additional information regarding these and other factors may be contained in our filings with the SEC, especially on Forms 10-K, 10-Q and 8-K. All such risk factors are difficult to predict and are subject to material uncertainties that may affect actual results and may be beyond our control.

QUICKSILVER GAS SERVICES LP
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

**QUICKSILVER GAS SERVICES LP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

In thousands, except for per unit data — Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues				
Gathering and transportation revenue — parent	\$ 8,674	\$ 4,102	\$22,350	\$ 9,612
Gathering and transportation revenue	1,553	500	4,006	838
Gas processing revenue — parent	7,345	4,892	21,866	11,109
Gas processing revenue	1,507	521	3,797	912
Other revenue — parent	225	267	675	300
Total revenues	<u>19,304</u>	<u>10,282</u>	<u>52,694</u>	<u>22,771</u>
Expenses				
Operations and maintenance — parent	4,772	3,072	15,034	8,063
General and administrative — parent	1,473	1,217	4,712	2,353
Depreciation and accretion	3,866	2,188	10,429	5,307
Total expenses	<u>10,111</u>	<u>6,477</u>	<u>30,175</u>	<u>15,723</u>
Operating income	9,193	3,805	22,519	7,048
Other income	4	114	10	149
Interest expense	<u>2,703</u>	<u>1,728</u>	<u>7,542</u>	<u>1,939</u>
Income before income taxes	6,494	2,191	14,987	5,258
Income tax provision	106	92	109	189
Net income	<u>\$ 6,388</u>	<u>\$ 2,099</u>	<u>\$14,878</u>	<u>\$ 5,069</u>
Net income attributable to the period from beginning of period to August 9, 2007		\$ 474		\$ 3,444
Net income attributable to the period from August 10, 2007 to September 30, 2007		1,625		1,625
Net income		<u>\$ 2,099</u>		<u>\$ 5,069</u>
General partner interest in net income ⁽¹⁾	\$ 137	\$ 32	\$ 314	\$ 32
Common and subordinated unitholders' interest in net income ⁽¹⁾	\$ 6,251	\$ 1,593	\$14,564	\$ 1,593
Earnings per common and subordinated unit: ⁽¹⁾				
Basic	\$ 0.26	\$ 0.07	\$ 0.61	\$ 0.07
Diluted	\$ 0.26	\$ 0.07	\$ 0.61	\$ 0.07
Weighted average number of common and subordinated units outstanding: ⁽¹⁾				
Basic	23,783	23,777	23,783	23,777
Diluted	26,829	23,787	23,924	23,787

⁽¹⁾ Amounts for 2007 represent the period from August 10, 2007 to September 30, 2007

The accompanying notes are an integral part of these condensed consolidated financial statements.

QUICKSILVER GAS SERVICES LP
CONDENSED CONSOLIDATED BALANCE SHEETS
In thousands, except for unit data — Unaudited

	September 30, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 342	\$ 1,125
Trade accounts receivable	1,883	882
Accounts receivable from parent	—	800
Prepaid expenses and other current assets	584	690
Total current assets	<u>2,809</u>	<u>3,497</u>
Property, plant and equipment, net	437,882	273,948
Other assets	1,084	965
	<u>\$ 441,775</u>	<u>\$ 278,410</u>
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities		
Current maturities of debt	\$ 1,100	\$ 1,100
Accounts payable to parent	291	—
Accrued additions to property, plant and equipment	22,472	23,624
Accounts payable and other	3,704	2,700
Total current liabilities	<u>27,567</u>	<u>27,424</u>
Long-term debt	104,300	5,000
Note payable to parent	51,904	50,569
Repurchase obligations to parent	151,864	82,251
Asset retirement obligations	3,502	2,793
Deferred income tax liability	225	173
Commitments and contingent liabilities (Note 8)		
Partners' Capital		
Common unitholders (12,269,714 and 12,263,625 units issued and outstanding at September 30, 2008 and December 31, 2007, respectively)	106,262	109,830
Subordinated unitholders (11,513,625 units issued and outstanding at September 30, 2008 and December 31, 2007)	(3,705)	356
General Partner	(144)	14
Total partners' capital	<u>102,413</u>	<u>110,200</u>
	<u>\$ 441,775</u>	<u>\$ 278,410</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

QUICKSILVER GAS SERVICES LP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
In thousands — Unaudited

	<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
Operating activities:		
Net income	\$ 14,878	\$ 5,069
Items included in net income not affecting cash:		
Depreciation	10,297	5,253
Accretion of asset retirement obligation	132	54
Deferred income taxes	52	16
Equity-based compensation	758	45
Amortization of debt issuance costs	158	33
Non-cash interest expense on repurchase obligations to parent	4,663	1,228
Non-cash interest expense on note payable to parent	2,160	625
Changes in assets and liabilities:		
Accounts receivable	(1,001)	(858)
Prepaid expenses and other assets	(171)	(229)
Accounts receivable from parent	3,435	—
Accounts payable and other	1,004	(57)
Net cash provided by operating activities	<u>36,365</u>	<u>11,179</u>
Investing activities:		
Capital expenditures	(112,200)	(55,184)
Net cash used in investing activities	<u>(112,200)</u>	<u>(55,184)</u>
Financing activities:		
Proceeds from sale of assets to parent	—	29,508
Proceeds from revolving credit facility borrowings	99,300	—
Repayment of subordinated note to parent	(825)	—
Debt issuance costs	—	(715)
Net proceeds from issuance of equity units	—	112,108
Distribution of offering proceeds to partners	—	(119,806)
Contributions by parent	—	38,045
Contributions by other partners	—	167
Distributions to unitholders	(23,423)	—
Net cash provided by financing activities	<u>75,052</u>	<u>59,307</u>
Net (decrease) increase in cash	(783)	15,302
Cash at beginning of period	<u>1,125</u>	<u>2,797</u>
Cash at end of period	<u>\$ 342</u>	<u>\$ 18,099</u>
Cash paid for interest	\$ 1,465	\$ —
Income taxes paid	\$ 332	\$ —
Non-cash investing and financing transactions:		
Working capital related to capital expenditures	\$ 27,314	\$ 17,828
Prepaid insurance	\$ —	\$ (176)
Debt issuance costs	\$ —	\$ (277)
Cost in connection with the initial public offering	\$ —	\$ (2,465)
Issuance of subordinated note payable to parent	\$ —	\$ 50,000
Acquisition of property, plant and equipment under repurchase obligation	\$ (64,950)	\$ (33,722)

The accompanying notes are an integral part of these condensed consolidated financial statements.

QUICKSILVER GAS SERVICES LP
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
In thousands — Unaudited

	Partners' Capital			Total
	Common	Subordinated	General Partner	
Balance at December 31, 2007	\$109,830	\$ 356	\$ 14	\$110,200
Equity-based compensation expense recognized	758	—	—	758
Distributions paid to partners	(11,840)	(11,111)	(472)	(23,423)
Net income	7,514	7,050	314	14,878
Balance at September 30, 2008	<u>\$106,262</u>	<u>\$ (3,705)</u>	<u>\$ (144)</u>	<u>\$102,413</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

QUICKSILVER GAS SERVICES LP
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
UNAUDITED

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Organization — Quicksilver Gas Services LP (the “Partnership” or “KGS”) is a Delaware limited partnership formed in January 2007 for the purpose of completing a public offering of common units and concurrently acquiring the assets of Quicksilver Gas Services Predecessor (“KGS Predecessor”). KGS’ general partner is Quicksilver Gas Services GP LLC, a Delaware limited liability company, which is owned by Quicksilver Resources Inc. (“Quicksilver” or “Parent”).

KGS Predecessor, since its inception in 2004, was comprised of entities under the common control of Quicksilver. The entities under common control, after having been formed by Quicksilver and giving effect to multiple contemporaneous transactions, were Cowtown Pipeline L.P., Cowtown Pipeline Partners L.P., Cowtown Gas Processing L.P. and Cowtown Gas Processing Partners L.P.

Initial Public Offering — KGS’ initial public offering, or IPO, of 5,000,000 common units was completed on August 10, 2007, and the sale of an additional 750,000 common units was completed on September 7, 2007, pursuant to the underwriters’ option to purchase additional common units.

As of September 30, 2008, the ownership of KGS is as follows:

	Percentage Ownership
Common unitholders:	
Public	27.1%
Quicksilver	23.5%
Subordinated unitholders:	
Quicksilver	47.5%
Total limited partner interest	<u>98.1%</u>
General Partner interest:	
Quicksilver	1.9%
Total	<u>100.0%</u>

Neither KGS nor the general partner has any employees. Employees of the Parent have been seconded to the general partner pursuant to a services and secondment agreement. The seconded employees, including field operations personnel, general and administrative personnel and an operational vice president, operate or directly support KGS’ pipeline system and natural gas processing facilities.

Description of Business — KGS is engaged in the business of gathering and processing natural gas and NGLs, produced from the Barnett Shale formation in the Fort Worth Basin located in North Texas. KGS provides services under contracts, whereby it receives fees for performing the gathering and processing services. KGS does not take title to the natural gas or associated natural gas liquids that it gathers and processes and thus avoids direct commodity price exposure.

KGS’ assets consist of the Cowtown System which includes:

- the Cowtown Pipeline, a pipeline system in the Fort Worth Basin, which consists of natural gas pipelines that gather natural gas produced by KGS’ customers and deliver it for processing;
- the Cowtown Plant, in Hood County, Texas, which consists of two natural gas processing units that extract NGLs from the natural gas stream and deliver customers’ residue gas to unaffiliated pipelines for transport and sale downstream; and
- the Corvette Plant, currently being constructed in Hood County, Texas, with a targeted in-service date during the first quarter 2009, which consists of a natural gas processing unit, that will extract NGLs from the natural gas stream and will deliver KGS customers’ residue gas to unaffiliated pipelines for transport and sale downstream.

As more fully described in Note 2, KGS' financial statements also include the operations of a gathering system in the Lake Arlington area of Tarrant County, Texas ("Lake Arlington Dry System") and a gathering system in Hill County, Texas ("Hill County Dry System"). Each of these systems gathers production from the Fort Worth Basin and delivers it to unaffiliated pipelines for sale downstream.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying unaudited condensed consolidated interim financial statements and related notes present the financial position, results of operations, cash flows and changes in partners' capital of KGS' natural gas gathering and processing assets. The financial statements include historical cost-basis accounts of the assets of KGS Predecessor, contributed to KGS by Quicksilver and two private investors in connection with the IPO, for the period prior to the closing date of the IPO.

These unaudited condensed consolidated interim financial statements include the accounts of the Partnership and have been prepared in accordance with accounting principles generally accepted in the U.S. These financial statements should be read in conjunction with the audited financial statements included in our 2007 Annual Report on Form 10-K. In management's opinion all adjustments and eliminations of intercompany balances necessary to present fairly the Partnership's results of operations, financial position and cash flows for the periods presented have been made. All such adjustments are of a normal and recurring nature. As permitted by SEC rules, certain disclosures normally included in financial statements have been condensed or omitted. The results of operations for an interim period are not necessarily indicative of annual results.

Use of Estimates — The preparation of financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities that exist at the date of the financial statements. Estimates and judgments are based on information available at the time such estimates and judgments are made. Although management believes the estimates are appropriate, actual results could differ from those estimates.

Repurchase Obligations to Parent — On June 5, 2007, KGS Predecessor sold several pipeline and gathering assets to Quicksilver. These assets consist of:

- a portion of the gathering lines in the Cowtown Pipeline;
- the Lake Arlington Dry System; and
- the Hill County Dry System.

At June 5, 2007, these assets were either constructed and in service or partially constructed. The selling price for these assets was approximately \$29.5 million, which represented KGS Predecessor's historical cost. KGS Predecessor collected the \$29.5 million on August 9, 2007. All assets conveyed via the sales are subject to repurchase by KGS from Quicksilver as follows:

Cowtown Pipeline repurchase — In accordance with the Gas Gathering and Processing Agreement, KGS has the option to purchase portions of the Cowtown Pipeline from Quicksilver at historical cost within a two-year option period after written notice from Quicksilver that the assets have commenced commercial service. Some individual laterals subject to repurchase within the Cowtown Pipeline have commenced commercial service as of September 30, 2008.

Lake Arlington Dry System and Hill County Dry System repurchases — In accordance with the Omnibus Agreement, KGS is obligated to purchase the Lake Arlington Dry System and the Hill County Dry System from Quicksilver at fair market value within a two-year option period after written notice from Quicksilver that those assets are completed and commercial service has commenced. A portion of each system has commenced commercial service as of September 30, 2008. Quicksilver has not provided written notice of completion of construction and commencement of commercial service for Hill County Dry System as of September 30, 2008. During the fourth quarter, KGS expects to complete the acquisition of the Lake Arlington Dry System from Quicksilver for approximately \$42 million, with an October 1, 2008 effective date. The purchase will be financed through use of the credit facility and consequently will reduce the repurchase obligation.

In conjunction with the purchase of the Lake Arlington Dry System, Quicksilver will assign to KGS its gas gathering agreement. Under the terms of the Lake Arlington Gas Gathering agreement, Quicksilver has agreed, for an initial term from the effective date through August 10, 2017, to dedicate and deliver all of the natural gas owned or controlled by Quicksilver and lawfully produced from existing and future wells drilled within the Lake Arlington area, as defined by the contract. Quicksilver has agreed to pay \$0.62 per MMBtu gathered by KGS in the Lake Arlington Dry System.

The following table summarizes the assets subject to repurchase obligation (in millions):

	June 5, 2007 Sales Price	Estimate of Total Construction Costs as of September 30, 2008 ⁽¹⁾	Construction Costs Recognized through September 30, 2008	KGS Repurchase
Cowtown Pipeline	\$ 22.9	\$ 63.1	\$ 61.6	Optional at Cost
Lake Arlington Dry System	3.6	80.0	40.1	Obligatory at Fair Value
Hill County Dry System	3.0	78.0	42.9	Obligatory at Fair Value
Interest cost included in liability	—	—	7.3 ⁽²⁾	
	<u>\$ 29.5</u>	<u>\$ 221.1</u>	<u>\$ 151.9</u>	

(1) The estimates of total construction cost are subject to change based on changes in the producers' drilling program, material and labor costs, easement costs and other factors.

(2) Interest cost is allocated as follows: Cowtown Pipeline – \$3.8M, Lake Arlington - \$2.0M and Hill County – \$1.5M

The assets' conveyance has not been treated as a sale for accounting purposes because KGS operates the assets subject to a repurchase obligation and presently intends to exercise its purchase rights. Accordingly, the original cost of \$29.5 million and subsequently incurred costs of \$115.1 million, excluding interest, are recognized in both KGS' property, plant and equipment and its repurchase obligations to Quicksilver. Similarly, KGS' results of operations include the revenues and expenses for these operations. For the nine months ended September 30, 2008, KGS recognized \$4.7 million of interest expense associated with the repurchase obligations to Parent based on a weighted average interest rate of 5.4%.

Net Income per Limited Partner Unit — KGS' net income is allocated to the general partner and the limited partners, including the holders of the common and subordinated units, in accordance with their respective ownership percentages, after giving effect to incentive distributions paid to the general partner.

Basic earnings per unit is computed by dividing net income attributable to unitholders by the weighted average number of units outstanding during each period. Diluted earnings per unit is computed using the treasury stock method, which considers the impact to net income and common equivalent units from the potential issuance of units and convertible debt.

The following is a reconciliation of the weighted average common and subordinated units used in the basic and diluted earnings per unit calculations for the three-and-nine month periods ended September 30, 2008. The impact of the convertible debt is antidilutive for the nine months ended September 30, 2008 and for the three-and-nine month periods ended September 30, 2007.

	Three Months Ended September 30, 2008	Period Ended September 30, 2007 ⁽¹⁾	Nine Months Ended September 30, 2008	Period Ended September 30, 2007 ⁽¹⁾
(In thousands, except per unit data)				
Common and subordinated unitholders' interest in net income	\$ 6,251	\$ 1,593	\$ 14,564	\$ 1,593
Impact of interest on convertible debt	659	—	—	—
Income available assuming conversion of convertible debt	\$ 6,910	\$ 1,593	\$ 14,564	\$ 1,593
Weighted average common and subordinated units — basic	23,783	23,777	23,783	23,777
Effect of restricted phantom units	141	10	141	10
Effect of convertible debt	2,905	—	—	—
Weighted average common and subordinated units — diluted	<u>26,829</u>	<u>23,787</u>	<u>23,924</u>	<u>23,787</u>
Earnings per common and subordinated unit:				
Basic	\$ 0.26	\$ 0.07	\$ 0.61	\$ 0.07
Diluted	\$ 0.26	\$ 0.07	\$ 0.61	\$ 0.07

⁽¹⁾ Amounts for 2007 represent the period from August 10, 2007 to September 30, 2007

Comprehensive Income — Comprehensive income is equal to net income for the periods presented due to the absence of any other comprehensive income.

Recently Issued Accounting Standards

Pronouncements Implemented

SFAS No. 157, *Fair Value Measurements*, was issued by the FASB in September 2006. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”) and expands disclosures about fair value measurements. The Statement applies under other accounting pronouncements that require or permit fair value measurement. No new requirements are included in SFAS No. 157, but application of the Statement has changed current practice. The Partnership adopted SFAS No. 157 on January 1, 2008 without significant impact.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. While SFAS No. 159 became effective on January 1, 2008, the Partnership did not elect the fair value measurement option for any of its financial assets or liabilities.

On April 30, 2007, the FASB issued FASB Staff Position No. 39-1, *Amendment of FASB Interpretation No. 39*. The FSP amends paragraph 3 of FIN No. 39 to replace the terms “conditional contracts” and “exchange contracts” with the term “derivative instruments” as defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. It also amends paragraph 10 of Interpretation 39 to permit a reporting entity to offset fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in accordance with that paragraph. The Partnership adopted FSP No. 39-1 on January 1, 2008 without significant impact.

Pronouncements Not Yet Implemented

SFAS No. 141 (revised 2007), *Business Combinations*, “SFAS No. 141(R)” was issued in December 2007. SFAS No. 141(R) replaces SFAS No. 141, *Business Combinations*, while retaining its fundamental requirements that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) defines the acquirer as the entity that obtains control in the business combination and it

establishes the criteria to determine the acquisition date. The Statement also requires an acquirer to recognize the assets acquired and liabilities assumed measured at their fair values as of the acquisition date. In addition, acquisition costs are required to be recognized separately from the acquisition. The Statement will apply to any acquisition completed by the Partnership on or after January 1, 2009, but may not be applied to any acquisition completed prior to January 1, 2009.

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* was issued in December 2007. The Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as “minority interest”) and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. The Statement also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the Parent and noncontrolling interest. Additionally, SFAS No. 160 establishes a single method for accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation. The Statement is effective for the Partnership beginning January 1, 2009, and is not expected to have a significant impact.

The FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, in March 2008. Under SFAS No. 161, companies are required to disclose the fair value of all derivative and hedging instruments and their gains or losses in tabular format and information about credit risk-related features in derivative agreements, counterparty credit risk, and its strategies and objectives for using derivative instruments. SFAS No. 161 is effective for the Partnership beginning January 1, 2009, and is not expected to have a significant impact.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States of America (the GAAP hierarchy). This Statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Partnership does not expect the adoption of SFAS 162 to have an impact on our financial statements or related disclosures.

Emerging Issues Task Force (“EITF”) Issued No. 07-4, “Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships” (“EITF 07-4”), in March 2008, the EITF ratified its consensus opinion on EITF 07-4. EITF 07-4 addresses how master limited partnerships should calculate earnings per unit using the two-class method in SFAS No. 128, *“Earnings per Share”* (“SFAS 128”) and how current period earnings of a master limited partnership should be allocated to the general partner, limited partners, and other participating securities. EITF 07-4 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. EITF 07-4 should be applied retrospectively for all periods presented. The Partnership is currently evaluating the impact that EITF 07-4 will have on its earnings per unit calculation.

In May 2008, the FASB issued Staff Position APB 14-1, *“Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”* (“FSP APB 14-1”), which clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *“Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants.”* In addition, FSP APB 14-1 indicates that issuers of such instruments generally should separately account for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. Adoption of FSP APB 14-1 is effective beginning in the first quarter of fiscal 2009 and will be required to retroactively present prior period information. The Partnership is currently evaluating FSP APB 14-1 and the effect FSP APB 14-1 will have on our financial statements.

3. PARTNERS’ CAPITAL AND DISTRIBUTIONS

The KGS partnership agreement requires that KGS distribute, within 45 days after the end of each quarter, all of its “available cash” (as defined in the KGS partnership agreement) to unitholders of record on the applicable record date selected by the general partner.

The following table presents cash distributions for 2008 and 2007:

<u>Payment Date</u>	<u>Attributable to the quarter ended</u>	<u>Per Unit Distribution⁽¹⁾</u>	<u>Total Cash Distribution (in millions)</u>
Pending Distributions ⁽⁴⁾			
November 14, 2008 ⁽²⁾	September 30, 2008	\$0.350	\$ 8.5
Completed Distributions			
August 14, 2008 ⁽²⁾	June 30, 2008	\$0.350	\$ 8.5
May 15, 2008	March 31, 2008	\$0.315	\$ 7.6
February 14, 2008	December 31, 2007	\$0.300	\$ 7.3
November 14, 2007 ⁽³⁾	September 30, 2007	\$0.168	\$ 4.1

(1) Represents common and subordinated unitholders.

(2) Total cash distribution includes an Incentive Distribution Rights amount of approximately \$20,000 to the general partner.

(3) Represents the post-IPO period from August 10, 2007 to September 30, 2007.

(4) Distributions are recognized as a reduction to partners' capital upon payment.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
	(in thousands)	
Gathering and transportation systems	\$ 168,259	\$ 106,478
Processing plants	144,105	117,571
Construction in progress — plant	76,639	12,636
Construction in progress — pipeline	29,723	20,046
Rights-of-way and easements	38,029	26,905
Land	1,144	952
Buildings and other	1,830	910
	459,729	285,498
Accumulated Depreciation	(21,847)	(11,550)
Net property, plant and equipment	<u>\$ 437,882</u>	<u>\$ 273,948</u>

Construction in progress — plant has increased due to the construction of the Corvette Plant, a natural gas processing plant and natural gas compression facility attached to the Cowntown Pipeline. The Plant is expected to be completed during the first quarter of 2009.

5. RELATED-PARTY TRANSACTIONS

KGS routinely conducts business with Quicksilver and its affiliates. For a more complete description of our agreements with Quicksilver, see Note 11, *Transactions With Related Parties*, to the consolidated financial statements in our 2007 Annual Report on Form 10-K.

During the second quarter of 2008, KGS, through a wholly-owned subsidiary, agreed to purchase land and a warehouse located in Hood County, Texas, from Parent for a purchase price of \$0.3 million and the reimbursement to Parent of \$0.6 million of costs incurred in the third quarter of 2008.

The following table summarizes the general and administrative expenses, including Parent's general and administrative expense allocated to KGS.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands)		(in thousands)	
General and administrative expense — parent				
Allocation of general and administrative overhead	\$ 607	\$ 606	\$ 1,733	\$ 1,576
Audit and tax services	197	269	673	435
Equity-based compensation expense	279	143	962	143
Legal services	92	37	417	37
Insurance expense	85	107	254	107
Salary and benefits	96	—	331	—
Other	117	55	342	55
Total general and administrative expense — parent	<u>\$ 1,473</u>	<u>\$ 1,217</u>	<u>\$ 4,712</u>	<u>\$ 2,353</u>

During the second quarter of 2008, the Partnership obtained additional easement rights for a total cost of \$0.2 million from an affiliate of an entity that beneficially owns more than 5% of KGS' outstanding units.

Gas Gathering and Processing Agreement — Effective September 1, 2008, Quicksilver and KGS, through its subsidiaries, entered into the Sixth Amended and Restated Gas Gathering and Processing Agreement. Under the Gas Gathering and Processing Agreement, Quicksilver has agreed, for an initial term from the effective date through August 10, 2017, to dedicate and deliver for processing all of the natural gas owned or controlled by Quicksilver and lawfully produced from existing and future wells drilled within the Quicksilver Counties or lands pooled therewith. The dedication does not oblige Quicksilver to develop the reserves subject to the Gas Gathering and Processing Agreement.

Under the Gas Gathering and Processing Agreement, KGS provides gathering, processing, compression and treating services. Quicksilver has agreed to pay \$0.4163 per MMBtu gathered by the Cowtown Pipeline and \$0.5204 per MMBtu processed. Quicksilver has agreed to pay KGS a compression fee of up to \$0.30 per MMBtu based on the average monthly operating pressure at the pipeline entry point. The compression fee payable by Quicksilver at a gathering system delivery point shall never be less than KGS' actual cost to perform such compression service. Quicksilver may also pay KGS a treating fee based on carbon dioxide content at the pipeline entry point. The rates above are each subject to an annual escalation tied to the consumer price index.

For a more complete description of the Fifth Amended and Restated Gas Gathering and Processing Agreement that was in effect prior to September 1, 2008, see Note 11, *Transactions with Related Parties*, in our 2007 Annual Report on Form 10-K.

6. LONG-TERM DEBT

Long-term debt consisted of the following:

	September 30, 2008	December 31, 2007
	(In thousands)	
Revolving credit facility	\$ 104,300	\$ 5,000
Subordinated note to Parent	53,004	51,669
	157,304	56,669
Current maturities of debt	(1,100)	(1,100)
Long-term debt	<u>\$ 156,204</u>	<u>\$ 55,569</u>

At September 30, 2008, KGS' borrowing capacity under the credit agreement was \$150.0 million, as limited by the lender commitments to the facility, which resulted in available capacity of \$45.7 million.

On October 10, 2008, the lenders' commitments under the credit agreement increased \$85 million to \$235 million. With this increase in commitments, KGS' borrowing capacity was \$168.8 million, as limited by the agreement's leverage ratio test. The increase of the commitments was the result of an exercise of an accordion option in the facility. The lenders approved the reinstatement of the accordion at \$115 million, to allow for the future expansion of the facility to \$350 million, with appropriate lender consent. The facility, which matures August 10, 2012, can be extended up to two additional years with requisite lender consent.

For a more complete description of our indebtedness, see Note 6, *Long-Term Debt*, to the consolidated financial statements in our 2007 Annual Report on Form 10-K.

7. ASSET RETIREMENT OBLIGATIONS

Activity for KGS' liability for asset retirement obligations is as follows:

	Nine Months Ended September 30, 2008 (in thousands)
Beginning asset retirement obligations	\$ 2,793
Incremental liability incurred	577
Accretion expense	132
Ending asset retirement obligations	<u>\$ 3,502</u>

As of September 30, 2008, no assets are legally restricted for use in settling asset retirement obligations.

8. COMMITMENTS AND CONTINGENT LIABILITIES

KGS has entered into agreements with third parties providing for natural gas compression equipment and the construction of the Corvette plant, with a targeted in-service date during the first quarter of 2009. Progress payments are due to the third parties upon completion of specified construction, manufacturing and delivery milestones. During the nine months ended September 30, 2008, \$71.9 million was paid to the third parties related to the construction of facilities. KGS estimates additional payments of \$33.1 million will be made upon completion of specified construction, manufacturing and delivery milestones.

9. INCOME TAXES

During the third quarter of 2008, the Partnership paid \$0.3 million related to its 2007 liability for Texas margin tax. The Parent does not expect to owe consolidated Texas margin tax for 2008, thus, KGS does not expect to make a cash payment for its 2008 liability for Texas margin tax, based upon Texas filing rules. All effects of the 2008 Texas margin tax calculation are captured in deferred income taxes.

10. EQUITY-BASED COMPENSATION

Awards of phantom units have been granted under KGS' 2007 Equity Plan, which permits the issuance of up to 750,000 units. The following table summarizes information regarding the phantom unit activity:

	Payable in cash		Payable in units	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Unvested phantom units — December 31, 2007	84,961	\$ 21.36	9,833	\$ 21.36
Vested	(27,330)	21.36	(6,089)	21.36
Issued	6,605	24.12	137,148	25.25
Cancelled	(3,000)	21.36	(974)	25.25
Unvested phantom units — September 30, 2008	<u>61,236</u>	\$ 21.66	<u>139,918</u>	\$ 25.15

At January 1, 2008, KGS had total unvested compensation cost of \$1.9 million related to unvested phantom units. KGS recognized compensation expense of approximately \$1.1 million during the nine months ended September 30, 2008, including \$0.4 million for remeasuring awards to be settled in cash to their revised fair value. Grants of phantom units during the nine months ended September 30, 2008 had an estimated grant date fair value of \$3.6 million. During the nine months ended September 30, 2008, the fair value of grants of phantom units payable in cash has decreased approximately \$0.5 million. KGS has unearned compensation expense of \$3.0 million at September 30, 2008 that will be recognized in expense over the next 2.1 years. Phantom units that vested during the nine months ended September 30, 2008 had a fair value of \$0.7 million on their vesting date.

For a more complete description of KGS' Equity Plan, see Note 10, *Equity Plan*, to the consolidated financial statements in our 2007 Annual Report on Form 10-K.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a growth-oriented Delaware limited partnership engaged in the business of gathering and processing natural gas produced from the Barnett Shale geologic formation of the Fort Worth Basin located in North Texas. We began operations in 2004 to provide these services primarily to Quicksilver, the owner of our general partner, as well as other natural gas producers in this area. During the quarter ended September 30, 2008, approximately 81% of our total natural gas gathering and processing volumes were comprised of natural gas owned or controlled by Quicksilver.

Our Operations

The results of our operations are significantly influenced by the volumes of natural gas gathered and processed through our systems. We gather and process natural gas pursuant to contracts under which we receive fees. We do not take title to the natural gas and associated NGLs that we gather and process, and therefore avoid direct commodity price exposure. However, a sustained decline in commodity prices could result in a decline in volumes produced by our customers and a resulting decrease in our revenues. Our contracts provide stable cash flows, but minimal, if any, upside in higher commodity price environments.

Operational Measurement

Our management uses a variety of financial and operational measurements to analyze our performance. We view these as important factors affecting our profitability and review them monthly for consistency and trend analysis. On a KGS wide basis, these measures are outlined below.

Volume - We must continually obtain new supplies of natural gas to maintain or increase throughput volumes on our gathering and processing systems. Our ability to maintain existing supplies of natural gas and obtain new supplies is impacted by:

- the level of successful drilling and production activity in areas currently dedicated to our systems;
- our ability to compete with other midstream companies for volumes from successful new wells; and
- our pursuit of new opportunities where a limited number of midstream companies conduct business.

We routinely monitor producer activity in the areas served by our operation to pursue new supply opportunities.

Adjusted Gross Margin - Adjusted gross margin information is presented as a supplemental disclosure because it is a primary performance measure used by management to evaluate the relationship between our gathering and processing revenues and our cost of operating our facilities and our general and administrative overhead. Adjusted gross margin is not a measure calculated in accordance with GAAP as it does not include deductions for cash payments such as interest and capital expenditures which are necessary to maintain our business. As an indicator of our operating performance, adjusted gross margin should not be considered an alternative to, or more meaningful than, net income or operating cash flow determined in accordance with GAAP. Our adjusted gross margin may not be comparable to a similarly titled measure of other companies because other entities may not calculate adjusted gross margin in the same manner. A reconciliation of adjusted gross margin to amounts reported under GAAP is presented in "Results of Operations" below.

Operating Expenses - Operating expenses are a separate measure that we use to evaluate performance of field operations. These expenses are comprised primarily of direct labor, insurance, property taxes, repair and maintenance expense, utilities and contract services, and are largely independent of the volumes through our systems, but may fluctuate depending on the scale of our operations during a specific period.

EBITDA - We believe that EBITDA is a widely accepted financial indicator of a company's operational performance and its ability to incur and service debt, fund capital expenditures and make distributions. EBITDA is not a measure calculated in accordance with GAAP, as it does not include deductions for items such as interest and capital expenditures which are necessary to maintain our business. EBITDA should not be considered as an alternative to net income, operating cash flow or any other measure of financial performance presented in accordance with GAAP. EBITDA calculations may vary among entities, so our computation of EBITDA may not be comparable to EBITDA or similar measures of other

entities. In evaluating EBITDA, we believe that investors should consider, among other things, the amount by which EBITDA exceeds interest costs, how EBITDA compares to principal payments on debt and how EBITDA compares to capital expenditures for each period. A reconciliation of EBITDA to amounts reported under GAAP is presented in “Results of Operations” below.

EBITDA is also used as a supplemental performance measure by our management and by external users of our financial statements such as investors, commercial banks, research analysts and others, to assess:

- financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
- our operating performance as compared to those of other midstream companies without regard to financing methods, capital structure or historical cost basis; and
- the viability of acquisitions and capital expenditures and the rates of return on investment opportunities.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2008 Compared with Three Months Ended September 30, 2007

The following table and discussion relates to our unaudited condensed consolidated results of operations for the three month periods ended September 30, 2008 and 2007:

	Three Months Ended September 30,	
	2008	2007
(In thousands, except volume data)		
Total revenues	\$ 19,304	\$ 10,282
Operations and maintenance expense	4,772	3,072
General and administrative expense	1,473	1,217
Adjusted gross margin	13,059	5,993
Other income	4	114
EBITDA	13,063	6,107
Depreciation and accretion expense	3,866	2,188
Interest expense	2,703	1,728
Income tax provision	106	92
Net income	<u>\$ 6,388</u>	<u>\$ 2,099</u>

Volume Data:

Volumes gathered (MMcf)	19,591	9,554
Volumes processed (MMcf)	14,122	9,032

The following table summarizes our volumes for the three months ended September 30, 2008 and 2007:

	Gathering		Processing	
	2008	2007	2008	2007
(MMcf)				
Cowtown Pipeline	15,130	9,415	14,122	9,032
Lake Arlington Dry System	3,174	—	—	—
Hill County Dry System	1,287	139	—	—
Total	<u>19,591</u>	<u>9,554</u>	<u>14,122</u>	<u>9,032</u>

The following table summarizes the changes in our revenues:

	Gathering	Processing	Other	Total
	(In thousands)			
Revenue for the quarter ended September 30, 2007	\$ 4,602	\$ 5,413	\$ 267	\$ 10,282
Volume changes	5,239	3,191	—	8,430
Price changes	386	248	(42)	592
Revenue for the quarter ended September 30, 2008	<u>\$ 10,227</u>	<u>\$ 8,852</u>	<u>\$ 225</u>	<u>\$ 19,304</u>

Total Revenues and Volumes — Approximately \$8.4 million of the increase was due to the increases in volumes that we gathered and processed in the Fort Worth Basin. This volume increase is due to increased well connections related to the continued development of the Fort Worth Basin, particularly in the Hood County and Lake Arlington areas. During September 2008, pipelines downstream of the Cowtown plant experienced disruptions related to Hurricane Ike which curtailed our gathering and processing. We estimate that average quarterly gathered and processed volumes were impacted by 10 MMcfd during the third quarter, resulting in an estimated \$1.1 million in lost revenue for KGS.

Operations and Maintenance Expense — The increase in operating expense is primarily due to the additional operating costs related to the continued expansion of our natural gas gathering systems, particularly in the Hood County and Lake Arlington areas. However, the increases in our operating and maintenance expense has been less significant than the increases in our throughput volumes and revenues. Operating expenses will likely increase in the future based on facility expansion and inflation, although we expect these costs to grow less than volume increases.

General and Administrative Expense — The increase in general and administrative expense was primarily the result of the expansion of our operations and the resulting increase in administrative and managerial personnel and related expenses to support that growth, as well as costs recognized in 2008 in connection with being a publicly traded partnership for the entire reporting period. General and administrative expense includes equity-based compensation for the quarters ended September 30, 2008 and September 30, 2007 of \$0.3 million and \$0.1 million, respectively.

Adjusted Gross Margin and EBITDA — Adjusted gross margin increased primarily as a result of the increase in revenues described above. As a percentage of revenues, adjusted gross margin has increased from 58% in the prior year quarter to approximately 68% in the current quarter, primarily due to the increase in revenues, which were partially offset by operations and maintenance expense associated with our current scale of operations and higher general and administrative expense.

Depreciation and Accretion Expense — Depreciation and accretion expense increased primarily as a result of the higher gross cost of property, plant and equipment as a result of capital expenditures made subsequent to September 30, 2007 to expand our gathering network.

Interest Expense — Interest expense increased primarily due to the increases in the repurchase obligation to Parent and borrowings under the revolving credit facility. Capitalized interest in 2008 reflects the construction of the Corvette plant.

The following table summarizes the details of interest expense for the three months ended September 30, 2008 and 2007:

	<u>Three Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
	(In thousands)	
Interest cost:		
Repurchase obligation	\$ 1,736	\$ 1,016
Subordinated note to Parent	672	626
Revolving credit facility	847	86
Total cost	<u>3,255</u>	<u>1,728</u>
Less interest capitalized	552	—
Interest expense	<u>\$ 2,703</u>	<u>\$ 1,728</u>

Nine Months Ended September 30, 2008 Compared with Nine Months Ended September 30, 2007

The following table and discussion relates to our unaudited condensed consolidated results of operations for the nine month periods ended September 30, 2008 and 2007:

	Nine Months Ended September 30,	
	2008	2007
(In thousands, except volume data)		
Total revenues	\$ 52,694	\$ 22,771
Operations and maintenance expense	15,034	8,063
General and administrative expense	4,712	2,353
Adjusted gross margin	32,948	12,355
Other income	10	149
EBITDA	32,958	12,504
Depreciation and accretion expense	10,429	5,307
Interest expense	7,542	1,939
Income tax provision	109	189
Net income	<u>\$ 14,878</u>	<u>\$ 5,069</u>

Volume Data:

Volumes gathered (MMcf)	51,269	21,685
Volumes processed (MMcf)	40,870	20,015

The following table summarizes our volumes for the nine months ended September 30, 2008 and 2007:

	Gathering		Processing	
	2008	2007	2008	2007
(MMcf)				
Cowtown Pipeline	42,459	21,546	40,870	20,015
Lake Arlington Dry System	6,198	—	—	—
Hill County Dry System	2,612	139	—	—
Total	<u>51,269</u>	<u>21,685</u>	<u>40,870</u>	<u>20,015</u>

The following table summarizes the changes in our revenues:

	Gathering	Processing	Other	Total
	(In thousands)			
Revenue for the nine months ended September 30, 2007	\$ 10,450	\$ 12,021	\$ 300	\$ 22,771
Volume changes	15,208	13,095	—	28,303
Price changes	698	547	375	1,620
Revenue for the nine months ended September 30, 2008	<u>\$ 26,356</u>	<u>\$ 25,663</u>	<u>\$ 675</u>	<u>\$ 52,694</u>

Total Revenues and Volumes — Approximately \$28.3 million of the increase was due to the increase in volumes that we gathered and processed in the Fort Worth Basin. This volume increase is due to increased well connections during the nine months ended September 30, 2008. Revenues are expected to increase as more of the Fort Worth Basin is developed and more reserves are produced. Further, our expanded facilities, including the additional processing facility to be placed into service in 2009, will likely result in more throughput and revenues for us. During September 2008, pipelines downstream of the Cowtown plant experienced disruptions related to Hurricane Ike which curtailed our gathering and processing. We estimate that average quarterly gathered and processed volumes were impacted by 10 MMcfd during the third quarter, resulting in an estimated \$1.1 million in lost revenue for KGS.

Operations and Maintenance Expense — The increase in operating expense is mainly due to the continued expansion of our natural gas gathering system and additional operating costs related to the natural gas processing facility placed in service in March 2007. However, the increases in our operating and maintenance expenses has been less significant than the increases in our throughput volumes and revenues. Operating expenses will likely increase in the future based on facility expansion and inflation, although we expect these costs to grow less than volume increases.

General and Administrative Expense — The increase in general and administrative expense was primarily the result of the expansion of our operations and the resulting increase in administrative and managerial personnel and related expenses to support that growth, as well as costs recognized in 2008 in connection with being a publicly traded partnership. General and administrative expense includes equity-based compensation for the nine months ended September 30, 2008 and 2007 of \$1.0 million and \$0.1 million, respectively.

Adjusted Gross Margin and EBITDA — Adjusted gross margin increased primarily as a result of the increase in revenues described above. As a percentage of revenues, adjusted gross margin has increased from 54% in the prior year nine-month period to approximately 63% in the current year nine-month period, primarily due to the increase in revenues, which were partially offset by operations and maintenance expense associated with our current scale of operations and higher general and administrative expense.

Depreciation and Accretion Expense — Depreciation and accretion expense increased primarily as a result of the higher gross cost of property, plant and equipment due to capital expenditures made subsequent to September 30, 2007 to expand our gathering network.

Interest Expense — Interest expense increased primarily due to the increases in the repurchase obligation to Parent, the subordinated note payable to Parent and the borrowings under the revolving credit facility. Capitalized interest in 2008 reflects the construction of the Corvette plant.

The following table summarizes the details of interest expense for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Interest cost:		
Repurchase obligation	\$ 4,663	\$ 1,227
Subordinated note to Parent	2,161	626
Revolving credit facility	<u>1,691</u>	<u>86</u>
Total cost	8,515	1,939
Less interest capitalized	<u>973</u>	<u>—</u>
Interest expense	<u>\$ 7,542</u>	<u>\$ 1,939</u>

Liquidity and Capital Resources

The volumes of natural gas gathered and processed through our systems is dependent upon the natural gas volumes produced by our customers, which may be affected by natural gas price levels, the availability and cost of capital, the level of successful drilling activity and other factors beyond their control. Although our primary customer, Quicksilver, has

mitigated their near-term exposure to price declines through the use of derivative financial instruments covering substantial portions of their expected near-term production, we cannot predict whether or when natural gas prices will increase or decrease. In addition, the turmoil in the credit and financial markets appears to have deepened significantly in recent weeks, and Quicksilver as well as other of our customers have announced reductions in their planned levels of capital expenditures and drilling activity for the remainder of 2008 and 2009. If these conditions were to persist or worsen over a prolonged period of time, we could experience a reduction in volumes through our system and therefore a reduction of revenues and cash flows.

Prior to our IPO, our sources of liquidity were cash generated from operations and equity investments by our owners. Our sources of liquidity after our IPO include:

- cash generated from operations;
- borrowings under our credit agreement; and
- future debt and equity offerings.

We believe that the cash generated from these sources will be sufficient to meet our expected \$0.35 per unit quarterly cash distributions and our requirements for short-term working capital and our long-term capital expenditures for the next 12 months.

Cash Flows

	For the Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Net cash provided by operating activities	\$ 36,365	\$ 11,179
Net cash used in investing activities	(112,200)	(55,184)
Net cash provided by financing activities	75,052	59,307

KGS' cash flows are significantly influenced by production growth in the Fort Worth Basin. As Quicksilver's total production in the Fort Worth Basin has grown, we have expanded our gathering and processing capabilities to serve the increased production.

Cash Flows Provided by Operating Activities — The increase in cash flows provided by operations resulted primarily from increased revenues and higher profitability associated with the services we provided to the customers whose wells are connected to our system.

Cash Flows Used in Investing Activities — The increase in cash flows used in investing activities resulted from the higher capital expenditures used to expand our gathering system and processing capabilities. We have expended \$85.3 million in 2008 on processing facilities and \$26.9 million on gathering assets. We believe that these expenditures will be accretive to future operating results.

Cash Flows Provided by Financing Activities — Cash flows provided by financing activities in 2008 consisted primarily of the proceeds from borrowings under our credit agreement of \$99.3 million used to expand our gathering system and processing facilities, partially offset by distributions of \$23.4 million to our unitholders.

Information regarding cash distributions for 2008 and 2007 is included in Note 3 to our condensed consolidated interim financial statements included in Item 1 of Part I of this quarterly report.

Working Capital (Deficit) — Working capital is a measure of our ability to pay our liabilities as they become due. Our working capital (deficit) was (\$24.8) million at September 30, 2008, and (\$23.9) million at December 31, 2007. However, excluding liabilities associated with capital expenditures, our working capital (deficit) was (\$2.3) million and (\$0.3) million at these two dates, respectively.

The change in working capital of (\$0.9) million from December 31, 2007 to September 30, 2008, resulted primarily from a decrease in cash and cash equivalents and an increase in accounts payable and other. The net decrease was partially

offset by a decrease in liabilities associated with capital expenditures. The net working capital deficit is expected to be funded by cash generated from operations and, to a lesser extent, available borrowings under the credit agreement.

Capital Expenditures

The midstream energy business can be capital intensive, requiring significant investment for the acquisition or development of new facilities, particularly in emerging production areas such as the Fort Worth Basin. We categorize our capital expenditures as either:

- expansion capital expenditures, which are made to construct additional assets, expand and upgrade existing systems, including compression, and facilities or acquire additional assets; or
- maintenance capital expenditures, which are made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and extend their useful lives, or to maintain existing system volumes and related cash flows.

During 2008, we have increased gross property, plant and equipment by \$174.2 million, including expansion capital expenditures of approximately \$107.8 million, \$1.4 million in maintenance capital expenditures and \$65.0 million in capital expenditures related to assets subject to repurchase obligations. We expect remaining capital expenditures for 2008 to be approximately \$38 million, excluding any expenditure to reacquire or develop assets subject to repurchase obligations. We expect these expenditures to be funded through a combination of borrowings under our revolving credit facility and operating cash flow.

Debt

Revolving Credit Facility — Our revolving credit agreement required us to maintain, as of September 30, 2008, a ratio of our consolidated trailing 12-month EBITDA (as defined in our credit agreement) to our net interest expense, of not less than 2.5 to 1.0; and a ratio of total indebtedness to consolidated trailing 12-month EBITDA of not more than 4.75 to 1.0 for the quarter ending on September 30, 2008. Furthermore, this credit agreement contains various covenants that limit, among other things, our ability to:

- incur further indebtedness;
- grant liens;
- pay distributions; and
- engage in transactions with affiliates.

Our repurchase obligations to Quicksilver, our obligations to Quicksilver under the subordinated note described below, and the capitalized or non-cash interest thereon, are excluded as indebtedness or interest expense for purposes of determining our covenant compliance.

At September 30, 2008, KGS' borrowing capacity under the credit agreement was \$150.0 million, which resulted in available capacity of \$45.7 million. As of September 30, 2008, KGS was in compliance with all of the covenants related to the credit agreement. Should our EBITDA continue to grow, we expect the borrowing capacity under the credit agreement to grow as well.

On October 10, 2008, the lenders' commitments under the credit agreement increased \$85 million to \$235 million. With this increase in commitments, KGS' borrowing capacity was \$168.8 million, as limited by the agreement's leverage ratio test. The increase of the commitments was the result of the exercise of an accordion option in the facility. The lenders approved the reinstatement of the accordion at \$115 million, to allow for the future expansion of the facility to \$350 million, with appropriate lender consent. The facility, which matures August 10, 2012, can be extended up to two additional years with requisite lender consent.

Subordinated Note — During the nine months ended September 30, 2008 we made three quarterly payments at the end of each quarter of \$0.3 million in accordance with the agreement. Interest expense of \$2.2 million recognized during the nine months ended September 30, 2008 was added to the outstanding principal amount.

Repurchase Obligations to Parent - The information regarding repurchase obligations to Parent is included in Note 2 to our condensed consolidated interim financial statements included in Item 1 of Part I of this quarterly report.

Commitments and Contingent Liabilities

Information regarding commitments and contingent liabilities is included in Note 8 to our condensed consolidated interim financial statements included in Item 1 of Part I of this quarterly report.

Recently Issued Accounting Standards

The information regarding recent accounting pronouncements is included in Note 2 to our condensed consolidated interim financial statements included in Item 1 of Part I of this quarterly report.

Critical Accounting Estimates

Management's discussion and analysis of financial condition and results of operations are based on our condensed consolidated interim financial statements and related footnotes contained within Item 1 of Part I of this quarterly report. Our critical accounting estimates used in the preparation of the consolidated financial statements were discussed in our 2007 Annual Report on Form 10-K. These critical estimates, for which no significant changes have occurred in the nine months ended September 30, 2008, include estimates and assumptions pertaining to:

- Depreciation expense and capitalization limits for property, plant and equipment;
- Repurchase obligations to Parent;
- Asset retirement obligations; and
- Equity-based compensation

The process of preparing financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of the assets, liabilities, revenues and expenses. These estimates and assumptions are based upon what we believe is the best information available at the time of the estimates or assumptions. The estimates and assumptions could change materially as conditions within and beyond our control change. Accordingly, actual results could differ materially from those estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have established policies and procedures for managing risk within our organization, including internal controls. The level of risk assumed by us is based on our objectives and capacity to manage risk.

Credit Risk

Our primary risk is that we are dependent on Quicksilver for the majority of our supply of natural gas volumes, and are consequently subject to the risk of nonpayment or late payment by Quicksilver for gathering and processing fees. Quicksilver's credit ratings are below investment grade, where we expect them to remain for the foreseeable future. Accordingly, this risk is higher than it would be with a more creditworthy contract counterparty or with a more diversified group of customers. Unless and until we significantly increase our customer base, we expect to continue to be subject to significant and non-diversified risk of nonpayment or late payment of our fees. Additionally, broad market factors, including lower credit availability, require us to perform frequent credit analyses of our customers. We have not had any customers fail to perform on their financial obligations to us.

Interest Rate Risk

As base interest rates remain low, the credit markets have caused the spreads charged by lenders to increase. As base rate or spreads increase, our financing costs would increase accordingly. Although this could limit our ability to raise funds in the capital markets, we expect in this regard to remain competitive with respect to acquisitions and capital projects, as our competitors would face similar circumstances.

We are exposed to variable interest rate risk as a result of borrowings we may have under our revolving credit agreement, our Subordinated Note and our repurchase obligations to the Parent.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2008, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Our operations are subject to a variety of risks and disputes normally incident to our business. As a result, we may, at any given time, be a defendant in various legal proceedings and litigation arising in the ordinary course of business. However, we are not currently a party to any material litigation.

Item 1A. Risk Factors

There have been no material changes in risk factors from those described in Part I, Item 1A, “Risk Factors” included in our 2007 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
*10.1	Sixth Amended and Restated Gas Gathering and Processing Agreement, dated September 1, 2008, among Quicksilver Resources Inc., Cowtown Pipeline Partners L.P. and Cowtown Gas Processing Partners L.P.
*31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 5, 2008

QUICKSILVER GAS SERVICES LP

**By: QUICKSILVER GAS SERVICES GP LLC, its
General Partner**

By: /s/ Thomas F. Darden
Thomas F. Darden
President and Chief Executive Officer

By: /s/ Philip Cook
Philip Cook
Senior Vice President - Chief Financial Officer

EXHIBIT INDEX

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Sixth Amended and Restated
Gas Gathering and Processing Agreement

Between

QUICKSILVER RESOURCES INC.,
COWTOWN PIPELINE PARTNERS L.P.

and

COWTOWN GAS PROCESSING PARTNERS L.P.

Cowtown Gas Facilities

Effective Date September 1, 2008

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EXHIBITS

EXHIBIT A	Contract Area
EXHIBIT B	Gathering System Delivery Point(s); Plant Delivery Point(s)
EXHIBIT C	Residue Gas Delivery Point(s); Plant Products Delivery Point(s)
EXHIBIT D	Compression Fee

Sixth Amended and Restated
Gas Gathering and Processing Agreement

THIS SIXTH AMENDED AND RESTATED GAS GATHERING AND PROCESSING AGREEMENT (the "Agreement") is made and entered into as of the 1st day of September, 2008 (the "Effective Date"), by and among COWTOWN PIPELINE PARTNERS L.P., a Texas limited partnership ("Gatherer"), COWTOWN GAS PROCESSING PARTNERS L.P., a Texas limited partnership, ("Processor"), and QUICKSILVER RESOURCES INC., a Delaware corporation, ("Producer"). Gatherer, Processor and Producer are sometimes referred to herein, individually, as a "Party" and, collectively, as the "Parties".

WITNESSETH, THAT:

WHEREAS, the Parties entered into that certain Fifth Amended and Restated Gas Gathering and Processing Agreement dated effective August 10, 2007 (the "Fifth Restatement");

WHEREAS, the Parties desire to amend certain terms in the Fifth Restatement and to provide for revised and supplemental Exhibits to be made a part of the Agreement;

NOW, THEREFORE, in consideration of the representations, warranties and mutual premises and benefits contained herein and for other good and valuable consideration, the adequacy, receipt and sufficiency of which are hereby acknowledged, Gatherer, Processor and Producer agree to amend and restate the Fifth Restatement as follows:

ARTICLE I -
DEFINITIONS

- 1.1 For the purpose of this Agreement, the following terms and expressions used herein are defined as follows:
- a. "Btu" shall mean one British thermal unit, which is the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.
 - b. "Component" shall mean those hydrocarbon and non-hydrocarbon molecular constituents which are definable by industry standards and procedures. Such Components as used in this Agreement shall be:
 - N2 - Nitrogen
 - CO₂ - Carbon Dioxide
 - H₂S - Hydrogen Sulfide
-

C1 - Methane
C2 - Ethane
C3 - Propane
iC4 - Iso-butane
nC4 - Normal Butane
iC5 - Iso-pentane
nC5 - Normal Pentane
C6+ - Hexanes and Heavier Compounds

- c. "Compression Fee" shall have the meaning set forth in Section 12.3 of this Agreement.
- d. "Contract Area" shall mean that area as described or outlined on Exhibit A which is attached hereto and made a part hereof for all purposes.
- e. "CPI Adjustment" shall mean that percentage equal to the percentage increase between:
 - (i) the seasonally unadjusted Consumer Price Index for All Urban Consumers (all items), U.S. city Average (1982-84 =100), as published by the U.S. Department of Labor, Bureau of Labor Statistics ("CPI-U") for the month of December of the second year prior to the Escalation Date; and
 - (ii) the seasonally unadjusted CPI-U for the month of December immediately preceding the Escalation Date.
- f. "Day" shall mean a period of twenty-four (24) consecutive hours beginning and ending at seven o'clock a.m. Central Time.
- g. "Escalation Date" shall mean the January 1st following the Effective Date and each January 1st thereafter.
- h. "Facilities" shall mean the Plant and the Gathering System.
- i. "Gas" shall mean natural gas which is owned or controlled by Producer or its successors and assigns and produced from wells drilled on lands within the Contract Area, including casinghead gas produced with crude oil, gas from gas wells produced in association with crude oil (associated gas), and gas from condensate wells (non-associated gas), and shall include any inerts or impurities contained therein.
- j. "Gathering Fee" shall have the meaning set forth in Section 12.1 of this Agreement.

- k. "Gathering System" shall mean, but shall in no way be limited to, the gas gathering pipelines, fuel gas pipelines, dehydration facilities, compression facilities, junctions, heaters, meters, separators, electric power lines, communications cables, roads, and other related facilities and equipment, including all easements located thereon, from the inlet flange of the pipeline metering facility installed up to the inlet flange of the separation facilities installed upstream of the Plant inlet meter, necessary to gather and transport gas from the Gathering System Delivery Point(s) to the Plant Delivery Point(s) and shall include any expansion of the Gathering System as provided in Section 4.4.
- l. "Gathering System Delivery Point(s)" shall mean the inlet flange of Gatherer's metering facilities located at or near each of Producer's wells located within the Contract Area or such other point as may be mutually agreed upon by the Parties. The Gathering System Delivery Point(s) are listed on Exhibit B to this Agreement which is attached hereto and made a part hereof for all purposes and which may be amended from time to time to reflect the addition or deletion of a Gathering System Delivery Point.
- m. "Liquefiable Hydrocarbons" shall mean ethane, propane, iso-butanenes, normal butanes, iso-pentanenes, normal pentanes, hexanes and heavier hydrocarbons, and incidental methane, or any mixtures thereof, which can be recovered or extracted in the Gathering System or the Plant and sold as Plant Products.
- n. "MCF" shall mean 1,000 standard cubic feet of gas.
- o. "MMBtu" shall mean 1,000,000 Btu's.
- p. "MMCF" shall mean 1,000,000 standard cubic feet of gas.
- q. "MMCFD" shall mean 1,000,000 standard cubic feet of gas per day.
- r. "Month," "billing month," "period," and "accounting period" shall mean the period beginning at seven o'clock a.m. on the first day of a calendar month and ending at seven o'clock a.m. on the first day of the next succeeding calendar month.
- s. "Plant" shall mean, but shall in no way be limited to, all tanks, machinery, equipment, buildings, structures, fixtures, appliances, pipe, valves, fittings, and materials of any nature or kind whatsoever located on the site at which the processing, compression, and recompression facilities of Processor are currently located in Hood County, Texas (generally known as the Cowtown Plant), or any other site where such facilities may later be located, including by way of additions to, expansion or new development of the Plant or such

related facilities, which shall include, without limitation, the Corvette Plant constructed in 2008; including appropriate storage, compression, metering, shipping, dehydration, and delivery facilities for Plant Products; all easements pertaining to rights-of-way, the site or sites, and the operation of the Plant; and any and all other facilities and appurtenances located, or to be located, on or away from such site or sites deemed by Processor to be necessary for the successful operation of the Plant, including inlet compression, if any, but not including the Residue Gas Delivery Facility.

- t. "Plant Delivery Point(s)" shall mean the point(s) of interconnect between the Gathering System and the Plant which point(s) are shown on Exhibit "B" which is attached hereto and made a part hereof for all purposes.
- u. "Plant Fuel" shall mean the MMBtu's of Gas consumed at the Plant for fuel which shall include, but shall in no way be limited to, fuel used for Gas compression, conditioning and treating; recovery, extraction, and removal of Plant Products; and the recompression of the Residue Gas.
- v. "Plant Products" shall mean all Liquefiable Hydrocarbons recovered, extracted, or otherwise removed from the Gas after the Plant Delivery Point(s), including, but not limited to, plant condensate (sometimes referred to as pentanes plus, heavier than butanes, or natural gasoline), and all commercial non-hydrocarbon substances recovered, extracted, or otherwise removed from the Gas in the Gathering System or the Plant.
- w. "Plant Products Delivery Point" shall mean either (a) the point(s) of interconnect between that certain liquids pipeline owned and operated by Gatherer, and the facilities of third party pipeline(s) to which the Plant Products are delivered and which point(s) are shown on Exhibit "C" which is attached hereto and made a part hereof for all purposes or (b) the truck loading facilities of the Plant.
- x. "Plant Tailgate" shall mean the point of interconnect between the Plant and the Residue Gas Delivery Facility located at the downstream flange of the block valve which is downstream of the Plant residue meter and emergency shutdown valve.
- v. "Primary Term" shall have meaning set forth in ARTICLE XX.
- z. "Process Flare" shall mean any MMBtu's of Gas dispersed or lost at the Plant as flare which shall include, but shall in no way be limited to, flare dispersed or lost in the compression, conditioning and treating of

Gas; recovery, extraction, and removal of Plant Products; and the recompression of Residue Gas.

- aa. "Processing Fee" shall have the meaning set forth in Section 12.2 of this Agreement.
- bb. "psia" shall mean pounds per square inch absolute.
- cc. "psig" shall mean pounds per square inch gauge.
- dd. "Residue Gas" shall mean that hydrocarbon and non-hydrocarbon stream of Gas remaining after the recovery, extraction, and removal of Plant Products, and after reduction for Gas used for Plant Fuel, Process Flare, and other incidental losses, including line loss.
- ee. "Residue Gas Delivery Facility" shall mean the residue gas pipeline and associated equipment that are located at the Plant Tailgate and are used to deliver residue gas to the Residue Gas Delivery Point(s).
- ff. "Residue Gas Delivery Point(s)" shall mean the point(s) of interconnect between the Residue Gas Delivery Facility and the facilities of third party pipeline(s) to which the Residue Gas is delivered and which point(s) are shown on Exhibit C which is attached hereto and made a part hereof for all purposes.
- gg. SCF" or "standard cubic foot of gas" shall mean the amount of Gas necessary to fill a cubic foot of space when the Gas is at a pressure of 14.65 pounds per square inch absolute and a temperature of sixty (60) degrees Fahrenheit.
- hh. "Term" shall have the meaning set forth in ARTICLE XX of this Agreement.
- ii. "Treating Fee" shall have the meaning set forth in Section 12.4 of this Agreement.

ARTICLE II -
COMMITMENT OF PROCESSING RIGHTS

2.1 Subject to the terms and provisions hereof, Producer dedicates and agrees to deliver to Gatherer for gathering and to Processor for processing, at the Gathering System Delivery Point(s), the total volume of Gas owned or controlled by Producer or its successors and assigns, lawfully produced from wells now or hereafter drilled on the lands within the Contract Area or lands pooled therewith, excluding Gas reserved or utilized by Producer or its successors and assigns in accordance with the terms of ARTICLE III. Any transfer by Producer of its right, title, or interest in the Gas to a third party, whether by farmout, contract, or otherwise, shall be made specifically subject to this Agreement. Producer will notify any person to whom Producer transfers all or a portion of its right, title,

or interest in the Gas that such Gas is dedicated pursuant to the terms of this Agreement to be gathered and processed in the Facilities, and Producer shall obtain such third party's agreement to continue delivering such Gas to Gatherer and Processor during the Term of and in accordance with this Agreement. Producer will notify Gatherer and Processor of any such transfer within ten (10) days of the effective date. Failure of Producer to so notify Gatherer and Processor will not impair Gatherer's and Processor's rights under this Agreement.

2.2 Gas shall be delivered to the Gathering System Delivery Point(s) after mechanical separation by Producer for the removal of free water and free liquid hydrocarbons, but shall not otherwise be processed by Producer for the removal of Liquefiable Hydrocarbons.

2.3 Gatherer agrees that subject to the provisions hereof, it will take and gather Gas from the Gathering System Delivery Point(s) and will cause such Gas to be delivered to the Plant Delivery Point(s) for processing.

2.4 Processor agrees that subject to the provisions hereof, it will receive the Gas at the Plant Delivery Point(s) and will cause such Gas to be processed in the Plant for the recovery and delivery of Plant Products. Processor also agrees to deliver at the Residue Gas Delivery Point(s) to Producer or Producer's nominee the Residue Gas as determined under the provisions of Section 10.2.

ARTICLE III - RESERVATIONS OF PARTIES

3.1 Producer reserves all liquid hydrocarbons, oil, or condensate removed by Producer by means of mechanical gas-liquid separators (including heater-treaters), drips, and/or lines from the Gas prior to delivery to Gatherer. If mechanical cooling is performed by Producer to meet the temperature specifications of this Agreement, Producer shall not reduce the temperature of the Gas below one hundred and twenty (120) degrees Fahrenheit.

3.2 Producer reserves all Gas that may be required for cycling, repressuring, pressure maintenance, and gas lift operations with respect to gas reservoirs on the premises committed hereunder; provided, however, that the Gas used in such operations shall be subject to the terms of this Agreement (to the extent that such Gas can be economically saved) and delivered to Processor following the cessation of such operations.

3.3 Producer reserves that amount of Gas which is required for above ground development and operation within the Contract Area.

3.4 Producer expressly reserves the right to deliver or furnish to Producer's lessor Gas as required to satisfy the terms of Producer's oil and gas leases.

ARTICLE IV -
GATHERING SYSTEM DELIVERY POINT(S),
PLANT DELIVERY POINT(S) AND PRESSURE

4.1 Producer, at its own expense, shall construct, equip, maintain, and operate all facilities (including, but not limited to, all necessary separation, dehydration, and/or compression equipment) necessary to deliver the Gas to Gatherer at the Gathering System Delivery Point(s) at such pressure as is required and sufficient to enter the Gathering System, but not to exceed one thousand two-hundred (1,200) psig.

4.2 Whether to facilitate the movement of the Gas on the Gathering System or for other reasons, Gatherer may, but shall have no obligation to, provide compression for the Gas (other than Plant recompression which shall be provided by Processor), on such basis and for the Compression Fee as more particularly provided and described in Section 12.3 below. In such event, Producer will provide its pro rata share of fuel required for operating such compression equipment and any related facilities.

4.3 Gatherer, at Producer's expense, shall install, construct and equip all meters and facilities necessary to measure the Gas at the Gathering System Delivery Point(s). Gatherer, at its own expense, shall maintain and operate such meters throughout the term of this Agreement.

4.4 Gatherer, in its sole and absolute discretion, may decline to construct a Gathering System expansion if it determines that it would not be profitable to do so. In such event, Producer may construct a Gathering System expansion at its sole cost and expense. The Gathering System expansion must meet all of Gatherer's specifications, and Gatherer will be responsible for the meter station and connection to the existing Gathering System. Gatherer may, at its election, but within two years (2) of the initial delivery of production from the Gathering System expansion acquire the ownership of the Gathering System expansion installed by the Producer by reimbursing Producer for the actual cost of the Gathering System expansion with no allowance for inflation or depreciation. In such event, Producer agrees to execute all assignments or contracts deemed necessary to accomplish the transfer to Gatherer of title to the Gathering System expansion, including rights-of-way and easements. In the event neither Gatherer nor Producer elect to construct the necessary Gathering System expansion to connect the Gathering System Delivery Point to the existing Gathering System, then this Agreement shall terminate as to the Gas from the well or wells to be connected to that Gathering System Delivery Point.

4.5 Gatherer hereby agrees to deliver the Gas to the Processor at the Plant Delivery Point(s) at a pressure sufficient to enter the Plant, but in no way greater than five hundred (500) psig unless Gatherer is providing compression pursuant to Section 4.2.

ARTICLE V -
REGULATION OF PRODUCTION

It is understood and agreed by the Parties that in order for Gatherer and Processor to maintain maximum efficiency in the Facilities, and in order to prevent flaring and/or

bypassing of Gas, it will be necessary to maintain a uniform rate of flow of Gas to the Facilities from all sources during each twenty-four (24) hour period. Therefore, Producer agrees that it will cooperate with Gatherer and Processor in regulating the flow rate of the Gas and in establishing a producing schedule to deliver on a best efforts basis the Gas at a uniform and continuous flow rate. In the event that Gatherer enters into an operational balancing agreement with a third party pipeline, Producer hereby agrees to be bound by the terms set forth therein.

ARTICLE VI -
QUANTITY

6.1 Subject to Gathering System and Plant capacity, Gatherer shall gather and Processor shall process that volume of Gas legally allowed to be produced which is attributable to the interest owned or controlled by Producer or its successors and assigns in wells drilled on lands within the Contract Area or lands pooled therewith; provided, after processing, Producer or Producer's nominee will accept the Residue Gas. Processor shall regulate the flow of gas at the Plant in the quantities and at the times desired by Processor to prudently operate the Plant and/or to meet the fluctuating condition of Processor's and Producer's markets. Gatherer or Processor may, from time to time, find it necessary to shut off entirely or restrict the flow of gas to the Gathering System or Plant, respectively; notwithstanding anything herein to the contrary, in such event, neither Gatherer nor Processor shall be liable to Producer for the resulting effect thereof. Gatherer and Processor shall provide Producer prior notice of any shut down due to routine maintenance and shall prudently work to minimize the amount of such downtime.

6.2 Producer shall nominate to Gatherer in writing, not less than three (3) business Days prior to the first day of each Month during the term of the Agreement, the daily quantity of Gas (expressed in MCF's and MMBtu's) that Producer shall deliver to Gatherer at the Gathering System Delivery Point(s) for gathering during such Month. Producer shall also nominate to Processor in writing, not less than three (3) business Days prior to the first day of each Month during the term of the Agreement, the daily quantity of Residue Gas (expressed in MCF's and MMBtu's) that Producer or Producer's nominee shall receive at the Residue Gas Delivery Point(s) following processing at the Plant.

6.3 Gatherer, Processor, and Producer shall designate a dispatcher(s) who shall be continuously on call for nomination purposes, and shall notify each other in writing of such dispatcher(s) and their telephone number(s).

6.4 Producer's dispatcher shall notify Gatherer's and Processor's dispatchers in advance of any anticipated decrease in delivery rate below the daily nominated quantity. Producer's dispatcher must obtain the prior written approval from Gatherer's and Processor's dispatchers for any delivery rate in excess of the daily quantity rate. Gatherer's and Processor's dispatcher shall notify Producer's dispatcher of any anticipated inability to receive the Gas at a delivery rate less than (a) the daily nominated quantity rate; or (b) a previously orally authorized delivery rate in excess of the daily nominated quantity rate.

6.5 If insufficient Plant or pipeline capacity exists to process all the Gas, the Plant processing capacity will be prorated for all gas dedicated to the Plant, without undue discrimination, and the Gas unable to be processed will be bypassed ratably, if allowed.

6.6 Processor shall have the right, but not the obligation, to expand the Plant or build a new gas processing plant at a different location, and in such event, the Gas, or a portion thereof, may be processed by Processor in the expanded Plant or the new gas processing plant in accordance with the terms of this Agreement. The Parties acknowledge and agree that the Corvette Plant located in Hood County, Texas (undergoing construction in 2008), is deemed part of the Plant and the Facilities for purposes of this Agreement, and the terms of this Agreement shall be applicable and effective with respect thereto.

ARTICLE VII -
QUALITY

7.1 Gatherer and Processor shall not be obligated to receive, gather and/or process (as the case may be), Gas delivered hereunder that fails to meet (i) the quality specifications of any transporter at any of the Residue Gas Delivery Point(s) or Plant Products Delivery Point(s), or (ii) the following specifications:

- a. The Gas must be commercial in quality and free from any foreign materials such as dirt, dust, iron particles, crude oil, dark condensate, free water, and other impurities; and substances which may be injurious to pipelines or which may interfere with the gathering, processing, transmission, or commercial utilization of said Gas;
- b. The Gas shall contain no free water;
- c. The Gas delivered hereunder shall not exceed a temperature of one hundred forty (140) degrees Fahrenheit at the Gathering System Delivery Point(s), as well as the Plant Delivery Point(s);
- d. The Gas delivered hereunder shall not contain more than:
 - (i) One-fourth grain of hydrogen sulfide, or five grains of total sulfur, or one grain mercaptan per one hundred (100) cubic feet;
 - (ii) one part per million by volume of oxygen;
 - (iii) that percent by volume of carbon dioxide which would result in the failure of the Residue Gas or the Plant Products to meet the specifications of any transporter at any of the Delivery Points, but in no event more than two percent by volume;
 - (iv) two percent by volume of nitrogen; or
 - (v) three percent by volume of a combined total of inerts, including,

but not limited to, carbon dioxide and nitrogen Components;

- e. No diluents such as carbon dioxide, air, or nitrogen shall be added to the Gas;
- f. The Gas shall contain no carbon monoxide, halogens, or unsaturated hydrocarbons, and no more than 0.1 parts per million of hydrogen; and
- g. The Gas shall contain no less than 1,100 Btu and 2 GPM ethane and heavier hydrocarbons.

In the event of any conflict as between a transporter's specifications and those appearing above in this Section 7.1, the most stringent or restrictive specifications shall be applicable to the Gas proffered under this Agreement.

7.2 If any of the Gas delivered by Producer hereunder should fail to meet the quality specifications set forth in this ARTICLE VII, Gatherer and Processor may elect to either (i) accept and process such Gas, (ii) accept, but treat and/or condition such Gas prior to gathering or processing at an additional cost, or (iii) refuse to accept such Gas. The acceptance of Gas not meeting the quality specifications set forth in ARTICLE VII shall not be deemed a waiver of Gatherer's and Processor's right to reject such Gas at any later time, and Gatherer and Processor shall be entitled, at any time and from time to time, to decline to accept proffered deliveries of Gas not meeting the quality specifications set forth herein.

7.3 If Gatherer and Processor elect to accept but treat and/or condition the non-conforming Gas prior to gathering and processing, Gatherer and Processor shall advise the Producer of such election and associated fees. Producer shall then have a maximum of thirty (30) days to advise Gatherer and Processor if it will treat and/or condition such non-conforming Gas and the cost associated with such treatment. If Producer does not elect to treat and/or condition such non-conforming Gas or fails to make such election within the specified time period, then the Gatherer and Processor shall have the right to (a) proceed with gathering and processing such non-conforming Gas and Producer shall pay to Gatherer and Processor all costs associated with such actions or (b) reject and release such non-conforming Gas from the terms of the Agreement. **Notwithstanding anything in this Section 7.3 to the contrary, Producer agrees that to the extent non-conforming Gas at a Gathering System Delivery Point is accepted and subsequently treated or conditioned with respect to its CO₂ Component, such treating shall be done for the Treating Fee described and provided in Section 12.4 below.**

ARTICLE VIII - TESTS

8.1 Producer, Gatherer and Processor do hereby agree as follows:

- a. Gatherer shall procure or cause to be procured a sample of Gas at each Gathering System Delivery Point and Plant Delivery Point,

respectively, and analyze the samples by chromatographic analysis to determine the Component content (mole percent), specific gravity, the BTU content, and the Plant Product content (expressed in gallons per MCF) thereof.

- b. The individual Plant Products contained in the commingled stream of plant products delivered from the Plant each month shall be determined from a chromatographic analysis of either (a) a spot sample or a sample taken from a continuous sampling device or (b) from an online chromatograph. The results of the chromatographic analysis shall be applied to the commingled stream of plant products to determine the volume of each individual Plant Product delivered from the Plant.
- c. Tests provided for in Subparagraphs (a) and (b) of this Section 8.1 shall be made by Gatherer and Processor using their own equipment or by an independent testing service at least once in each six month period, or more frequently in their sole discretion. All such tests shall be made in accordance with approved engineering practices. Representatives of Producer shall be entitled to witness such tests, and Producer shall give advance written notice to Gatherer and Processor in the event that it exercises such right.

8.2 Physical constants required for making calculations hereunder shall be taken from the Gas Processors Association Physical Constants Publication No. 2145-03 (as amended from time to time). Physical constants for the hexanes and heavier hydrocarbons portion of hydrocarbon mixtures shall be assumed to be the same as the physical constants for hexane. The heat content per gallon of each liquid hydrocarbon Component shall be determined by multiplying the cubic feet per gallon of such liquid hydrocarbon Component by the heat content per cubic foot thereof.

ARTICLE IX - MEASUREMENT AND METER TESTING

9.1 The unit of volume for measurement of Gas delivered hereunder shall be one thousand (1,000) cubic feet of Gas at a base temperature of sixty (60) degrees Fahrenheit and at an absolute pressure of 14.65 psia and saturated with water vapor. All fundamental constants, observations, records, and procedures involved in determining the quantity of Gas delivered hereunder shall be in accordance with the standards prescribed in Report Nos. 3 and 8, of the American Gas Association, as amended or supplemented from time to time, respectively. It is agreed that for the purpose of measurement and computations hereunder, the atmospheric pressure shall be assumed to be 14.7 psia regardless of the atmospheric pressure at which the Gas is measured and that the Gas obeys the Ideal Gas Laws as to variations of volume with pressure and specific gravity, including the deviation from Boyle's law, shall all be made by Gatherer and Processor in accordance with applicable rules, regulations, and orders. It is also agreed that the Gatherer and Processor

may apply a uniform correction factor for water vapor if they deem necessary in their sole and absolute discretion.

9.2 Gatherer shall install, maintain, and operate, or cause to be maintained and operated, a measuring station located at each Gathering System Delivery Point, the Residue Gas Delivery Point(s) and the Plant Products Delivery Point. Processor shall install, maintain, and operate a measuring station located downstream of the separation facilities at each Plant Delivery Point. Said measuring station(s) shall be so equipped with orifice meters, recording gauges, or other types of meter or meters of standard make and design commonly acceptable in the industry, and of suitable size and design, as to accomplish the accurate measurement of Gas delivered hereunder. The changing and integration of the charts (if utilized for measurement purposes hereunder) and calibrating and adjusting of meters shall be done by Gatherer or Processor, as appropriate. Gatherer and Processor shall have the right to utilize electronic gas measuring equipment should they so desire.

9.3 Processor shall measure or cause to be measured the volume of Plant Products in gallons.

9.4 Producer may, at its option and expense, install check meters for checking Gatherer's metering equipment at each Gathering System Delivery Point; and the same shall be so installed as not to interfere with the operation of the Facilities.

9.5 The temperature of the Gas flowing through the meter shall be determined by the continuous use of a recording thermometer or device installed by Gatherer or Processor, as the case may be, so that it will properly record the temperature of the Gas flowing through the meter.

9.6 The specific gravity of the Gas flowing through the meter shall be determined by methods commonly accepted in the industry. Specific gravities so determined will be used in calculating Gas deliveries until the next specific gravity test is made.

9.7 Each Party shall have the right to be present at the time of any installing, reading, sampling, cleaning, changing, repairing, inspecting, testing, calibrating, or adjusting done in connection with the other's measuring equipment used in measuring deliveries hereunder. The records from such measuring equipment shall remain the property of their owner, but upon request, each will submit to the other its records and charts, together with calculations therefrom subject to return within thirty (30) days after receipt thereof. If meters utilizing charts are used to measure Gas hereunder, then the charts shall be kept on file for a period of two (2) years, or such longer period as may be required by law. In addition, any other measurement data shall also be kept for the same time period. Each Party, during each of the first three production months, and after that at least semi-annually, or more often if necessary, shall calibrate the meters and instruments installed by it or cause the same to be calibrated. Gatherer shall give Producer ten (10) days notice in advance of such tests so that the latter may, at its election, be present in person or by its representative to observe adjustments, if any are made.

9.8 If the metering equipment is found to be inaccurate by two percent (2%) or more, registration thereof and any payment based upon such registration shall be corrected at the rate of such inaccuracy for any period of inaccuracy which is definitely known or agreed upon, or if not known or agreed upon, then for a period extending back one-half of the time elapsed since the last day of the calibration. Unless conclusively determined that either Gatherer's or Processor's measurement equipment is inaccurate by two percent (2%) or more, Gatherer's or Processor's, as the case may be, measurement shall be deemed to be correct for all purposes hereunder, and no adjustment shall be made to the previous volumes. Following any test, any metering equipment found to be inaccurate to any degree shall be adjusted immediately to measure accurately. If for any reason any meter is out of service or out of repair so that the quantity of Gas delivered through such meter cannot be ascertained or computed from the readings thereof, the quantity of Gas so delivered during such period shall be estimated and agreed upon by the Parties hereto upon the basis of the best available data using the first of the following methods which is feasible:

- a. By using the registration of any check measuring equipment of Producer, if installed and registering accurately;
- b. By correcting the error if the percentage of error is ascertainable by calibration, test, or mathematical calculation; or
- c. By estimating the quantity of deliveries during preceding periods under similar conditions when the meter was registering accurately.

9.9 If Producer shall notify Gatherer, or if Gatherer shall notify Producer, at any time that a special test of any Gathering System Delivery Point meter is desired, the Parties shall cooperate to secure an immediate verification of the accuracy of such meter and joint observation of any adjustments. All tests of Gatherer's measuring equipment at any Gathering System Delivery Point shall be made at Gatherer's expense, except that the Producer shall bear the expense of tests made at its request if the inaccuracy found is less than two percent (2%). Expense as used in this Section 9.9 shall be limited to actual costs of Gatherer as the result of testing and shall not include any costs incurred by Producer as the result of witnessing said testing.

9.10 If during any month less than 1,000 MCF of Gas is delivered to a Gathering System Delivery Point, (except for reasons of Force Majeure), then Gatherer shall charge a meter fee applicable to any such Gathering System Delivery Point equal to four hundred dollars (\$400.00). Such fee shall be deducted from the compensation otherwise due Producer under this Agreement; or, at Gatherer's election, Producer may be invoiced for such amount payable thirty (30) days after receipt.

9.11 The Parties hereto recognize and acknowledge that technological advances may occur over the term of this Agreement which may render certain measurement devices obsolete, or less accurate, or less efficient than that which may be available. In such event, Gatherer or Processor may, with Producer's approval, substitute or utilize such

available measurement equipment in lieu of any measurement equipment described above in this ARTICLE IX.

9.12 If for any reason the Gas is delivered to Gatherer at a Gathering System Delivery Point with pulsations that affect the accuracy of the measurement, Producer shall be responsible for installing necessary pulsation dampeners, or other devices, to eliminate or reduce the pulsations to an acceptable level determined by Gatherer.

ARTICLE X -
ALLOCATION PROCEDURE

10.1 With regard to the allocation of Plant Products, for each accounting period, the actual Plant Products will be allocated to each Gathering System Delivery Point in the ratio of the Theoretical Plant Product Content of each Gathering System Delivery Point over the sum of the Theoretical Plant Product Content for all Gathering System Delivery Points. The Component amount will be determined by analysis at the Plant Products Delivery Point.

The "Theoretical Plant Product Content of each Gathering System Delivery Point" shall equal the product of the Gathering System Delivery Point's share of plant inlet MCF multiplied by the GPM (Gallons per MCF) as determined by the chromatograph analysis of a sample of the Gathering System Delivery Point.

10.2 With regard to the allocation of Residue Gas, for each accounting period, the actual metered residue gas at each Residue Gas Delivery Point shall be allocated to each Gathering System Delivery Point in the ratio of the calculated Theoretical Residue Remaining for the Gathering System Delivery Point over the sum of Calculated Theoretical Residue Remaining for all Gathering System Delivery Points.

The "Calculated Theoretical Residue Remaining" shall equal each Gathering System Delivery Point's share of plant inlet volume MCF\MMBtu, minus each Gathering System Delivery Point Plant Product shrinkage (product shrinkage factors based on GPA 2145-03 bulletin), minus the allocated Plant Fuel.

ARTICLE XI -
DISPOSITION OF PRODUCER'S PORTION OF PLANT PRODUCTS

On behalf of Producer, Processor shall have the right to sell all Plant Products removed or extracted from the Facilities after Gas is delivered at the Plant Delivery Point(s). Processor shall sell the Plant Products at the Plant Products Delivery Point (s), and Producer shall have no right to take the Plant Products in kind at the Plant Products Delivery Point(s). Processor shall remit to Producer its share of the net proceeds received by Processor at the Plant Product Delivery Point(s).

ARTICLE XII -
GATHERING AND PROCESSING FEES

12.1 Producer shall pay to Gatherer 41.63 cents (\$0.4163) per MMBtu of Gas gathered pursuant to this Agreement (the "Gathering Fee").

12.2 Producer shall pay to Processor 52.04 cents (\$0.5204) per MMBtu of Gas processed pursuant to this Agreement (the "Processing Fee").

12.3 Producer shall pay to Gatherer a compression fee or fees (the "Compression Fee") computed by multiplying the MMBtu's of Producer's Gas metered at each Gathering System Delivery Point by the compression rate applicable to such Gathering System Delivery Point, which shall be based upon the average monthly operating pressure registered at such Gathering System Delivery Point as more particularly provided and described in Exhibit D, attached hereto and incorporated herein. **Notwithstanding anything herein to the contrary, Producer agrees that the Compression Fee payable by Producer at a Gathering System Delivery Point shall never be less than Gatherer's actual cost to perform such compression service.**

12.4 In the event Gas is treated as provided by Section 7.3, Producer shall pay a treating fee (the "Treating Fee") computed by multiplying 3.5 cents (\$0.035) per mole percent of CO₂ (based on tests conducted pursuant to Section 8.1), per MMBtu of Gas metered at the applicable Gathering System Delivery Point where such Gas was delivered.

12.5 On each Escalation Date, the Gathering Fee, the Processing Fee, the Treating Fee and the rates provided in Exhibit D (pertaining to the Compression Fee) will increase by a percentage equal to the CPI Adjustment.

12.6 At any time during the term of this Agreement, Producer may request that the Parties enter into negotiations to reduce either the Gathering Fee or Processing Fee, or both, and Gatherer and Processor agree to participate fully and reasonably in such negotiations.

ARTICLE XIII -
DISPOSITION OF PRODUCER'S PORTION OF RESIDUE GAS

Processor will deliver the Residue Gas to the Residue Gas Delivery Point(s). Processor agrees to deliver Producer's Residue Gas at a pressure sufficient to enter the third party natural gas pipeline(s), but in no event shall Processor be obligated to deliver Residue Gas at a pressure which exceeds the Plant discharge pressure of one thousand and sixty (1,060) psig. Producer will separately contract with a third party regarding the transportation and sale of their Residue Gas.

ARTICLE XIV -
ACCOUNTING, PAYMENTS AND CREDIT ASSURANCES

14.1 Gatherer and Processor shall furnish to Producer on or before the twenty-fifth (25th) day of each month a report or statement disclosing information necessary to enable

Producer to make reasonable and accurate statistical and accounting entries upon its books concerning all phases of this Agreement related to the preceding month, including an allocation statement of Residue Gas delivered for Producer's account to its Residue Gas purchaser and the amounts due Gatherer and Processor for the services provided hereunder. Producer shall remit the amounts due Gatherer and Processor within thirty (30) days after the receipt of Gatherer's and Processor's statement. **PRODUCER SHALL INDEMNIFY AND HOLD GATHERER AND PROCESSOR HARMLESS FROM ANY ALL CHARGES, PENALTIES, COSTS AND EXPENSES OF WHATEVER KIND OR NATURE ARISING FROM PRODUCER'S FAILURE TO PAY SUCH PAYMENTS, INCLUDING COSTS AND EXPENSES OF ANY LITIGATION AND REASONABLE ATTORNEYS' FEES ASSOCIATED THEREWITH.** Unpaid amounts due shall accrue interest at the lesser of a rate equal to one and one half percent (1.5%) per Month or the maximum rate permitted by law, until the balance is paid in full.

14.2 Each Party shall have the right during reasonable hours to examine books, records, charts, and original test data of another 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 without interest or penalty. No Party will have any right to recoup or recover prior overpayments or under payments that result from error that occur in spite of good faith performance if the amounts involved do not exceed one thousand dollars (\$1,000.00).

14.3 Processor shall pay to Producer monthly, on or before the sixtieth (60th) day after the end of the production month, but in no case sooner than Processor receives payment from its purchaser, the sums due under ARTICLE XI for Producer's Plant Products marketed by Processor during the preceding month less the amount of any taxes actually paid by Processor which are applicable to such quantities. This payment shall be made irrespective of the interest, title, or lien of any royalty or mineral owner or any third party or parties in and to the Gas delivered by Producer to Processor hereunder, the Plant Products, or Residue Gas derived therefrom, or proceeds accruing from the sale thereof.

14.4 Producer shall be responsible for the payment of all royalties due on the Gas. **PRODUCER SHALL INDEMNIFY AND HOLD GATHERER AND PROCESSOR HARMLESS FROM ANY AND ALL CLAIMS, ACTIONS, CAUSES OF ACTION, DAMAGES, LIABILITY, OR OBLIGATIONS ARISING OUT OF OR IN ANY WAY RELATED TO THE PAYMENT OF THE LESSOR'S ROYALTY OR ANY OTHER BURDEN OR ENCUMBRANCE AFFECTING THE GAS.**

14.5 Notwithstanding any change in ownership of Producer's properties, Gatherer and Processor shall never be required to make payments or to give notices required under the provisions of this Agreement to more than one party, and, in the event that the properties subject to this Agreement shall ever be owned by more than one party, Gatherer and Processor may withhold (without interest) further payments and notices until all of the owners of such properties have designated one party to act for them in all respects relating to said properties and this Agreement, including the rendering of bills, the submission of charts, and the receipt of payments and notices hereunder.

14.6 Processor, at its election, may deduct from its payment to Producer sums, if any, due to Gatherer or Processor under the terms of this Agreement.

14.7 All accounting records and documents directly related to this Agreement prepared by any Party hereto shall be retained for a period of not less than two (2) years following the end of the calendar year of their origination. The Parties further agree that all matters relating to the accounting hereunder for any calendar year shall be considered correct and not subject to further audit or legal challenge after two years following the end of the calendar year.

Processor must maintain such creditworthiness as Gatherer and Processor shall reasonably require. Gatherer and Processor's creditworthiness requirements shall be substantially similar to the requirements set forth below:

- a. Producer will be deemed creditworthy if its long-term unsecured debt securities are rated at least BB- by Standard & Poor's Corporation ("S&P") and at least Ba3 by Moody's Investor Service ("Moody's"); provided, however, that if the Producer's rating is at BB- or Ba3 and the short-term or long-term outlook is negative, Gatherer and Processor may require further analysis.
- b. If Producer does not meet the criteria described above, then Producer may request that Gatherer and Processor evaluate its creditworthiness based upon the level of service requested relative to the Producer's current and future ability to meet its obligations. Further, if Producer's creditworthiness does not meet any of the foregoing criteria, Producer will be considered creditworthy if Producer maintains and delivers to Gatherer and Processor an irrevocable guaranty of payment in form acceptable to Gatherer and Processor, or an irrevocable letter of credit from a financial institution rated at least A- by S&P or at least A3 by Moody's, in a form acceptable to Gatherer and Processor, in either case of the guaranty or the letter of credit in an amount satisfactory to Gatherer and Processor. The obligation to maintain such credit assurance shall extend until such time as Producer is deemed creditworthy as defined herein. Producer shall provide the guaranty or the letter of credit within twenty (20) days of written notice by Gatherer and Processor that such financial assurance is required.
- c. The creditworthiness requirements set forth in this Section 14.8 shall apply to any permitted assignment (in whole or in part), and to any permitted permanent release, as applicable, of this Agreement. Gatherer and Processor shall apply consistent evaluation practices to all similarly situated producers to determine the Producer's financial ability to perform the payment obligations due to Gatherer and Processor.

ARTICLE XV -
WARRANTY

15.1 Producer warrants the title to all Gas and all Components thereof which shall be delivered by Producer to Gatherer and 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 GATHERER OR PROCESSOR, TO INDEMNIFY, DEFEND AND HOLD GATHERER AND PROCESSOR HARMLESS FROM AND AGAINST ANY AND ALL SUITS, ACTIONS, LOSSES, DEBTS, ACCOUNTS, DAMAGES, COSTS, AND EXPENSES ARISING FROM OR OUT OF ANY ADVERSE CLAIM AS TO PRODUCER'S TITLE, INCLUDING, BUT NOT LIMITED TO, ANY ADVERSE CLAIM BROUGHT BY OR THROUGH A MINERAL INTEREST OR ROYALTY OWNER, TO OR AGAINST THE GAS AND AGAINST THE PLANT PRODUCTS DERIVED THEREFROM.** Producer agrees to make settlement for all royalties, overriding royalty interests, and/or production payments due and payable on the Gas delivered to Gatherer and Processor hereunder, the Plant Products extracted and saved therefrom, and the sale and disposition of the Residue Gas thereof, all in accordance with the terms of the leases from which Gas processed hereunder is produced, applicable instruments of title, and all amendments thereto.

15.2 If Producer's title to the Gas, Plant Products derived therefrom, or Residue Gas is questioned, Processor may withhold payments of proceeds due hereunder without interest up to the amount of the claim until title is free from such questions or until Producer furnishes a bond satisfactory to Processor conditioned to save Gatherer and Processor harmless, or other surety satisfactory to Gatherer or Processor.

15.3 Producer also represents and warrants that it has full authority to receive payment for the sum of all Gas delivered hereunder.

ARTICLE XVI -
TAXES

16.1 Producer shall pay or cause to be paid all production, severance and ad valorem taxes, assessments, and other charges levied or assessed against the Gas delivered by Producer hereunder, and against Producer's portion of the Plant Products, against Producer's Residue Gas, and against the sale thereof, and all taxes and statutory charges levied or assessed against any of Producer's properties, facilities, or operations.

16.2 Processor shall pay all taxes and statutory charges levied or assessed against the Plant and operations concerning such plant.

16.3 Gatherer shall pay all taxes and statutory charges levied or assessed against the Gathering System and operations concerning such system.

16.4 The price paid under ARTICLE XII of this Agreement includes reimbursement for state severance taxes paid by Producer and Processor under this ARTICLE XVI of the Agreement.

ARTICLE XVII -
INDEMNITY

17.1 As between the Parties, and as to liability, if any, accruing to a Party hereto, or to any third party, Producer shall be solely liable for and in control and possession of the Gas deliverable hereunder until the Gas is delivered to Gatherer at the Gathering System Delivery Point(s). Gatherer shall be solely liable for and in control and possession of the Gas deliverable hereunder until the Gas is delivered to Processor at the Plant Delivery Point(s). Processor shall be solely liable for and in control and possession of the Gas and the Plant Products until Processor has delivered Residue Gas to Producer at the Residue Gas Delivery Point(s) whereupon Producer shall again be in control and possession thereof and bear the risk of loss of the Residue Gas.

17.2 PRODUCER SHALL BE AFFORDED ACCESS TO GATHERER'S AND PROCESSOR'S PROPERTY AND THE FACILITIES TO THE EXTENT NECESSARY TO CARRY OUT ITS RIGHTS AND OBLIGATIONS UNDER THIS AGREEMENT, AND PRODUCER SHALL FULLY OBSERVE AND COMPLY WITH ALL OF GATHERER'S AND PROCESSOR'S SAFETY PRACTICES AND PROCEDURES WHILE ON THE PREMISES. PRODUCER HEREBY AGREES TO INDEMNIFY, HOLD HARMLESS, PROTECT, DEFEND, AND DISCHARGE GATHERER AND PROCESSOR AND THEIR AFFILIATED COMPANIES, PARTNERS, SUCCESSORS, ASSIGNS, OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES AND AGENTS FOR, FROM AND AGAINST ANY AND ALL JUDGMENTS, EXECUTIONS, CAUSES OF ACTION, DEMANDS, RIGHTS, SUITS, DEBTS AND SUMS OF MONEY, ACCOUNTINGS, DUES, PENALTIES, FINES, CLAIMS (INCLUDING, WITHOUT LIMITATION, CLAIMS FOR CONTRIBUTION), LIABILITIES, LOSSES, COSTS, DAMAGES AND EXPENSES (INCLUDING COURT COSTS, REASONABLE COSTS OF INVESTIGATION, DEFENSE AND ATTORNEY'S FEES) FOR THE INJURY TO OR DEATH OF ANY PERSON (INCLUDING, WITHOUT LIMITATION, EACH OF PRODUCER'S, GATHERER'S AND PROCESSOR'S EMPLOYEES, AGENTS AND CONTRACTORS) OR PROPERTY DAMAGE OF ANY NATURE, KIND OR DESCRIPTION OR ANY OTHER CLAIM OF ANY NATURE, KIND OR DESCRIPTION BROUGHT BY ANY PERSON OR ENTITY, WHETHER LEGAL OR EQUITABLE, WHICH ARISES OUT OF, RESULTS FROM OR IS IN ANY WAY RELATED TO (i) PRODUCER'S OWNERSHIP AND CONTROL OF THE GAS PRIOR TO THE TIME THAT THE GAS PASSES THROUGH THE GATHERING SYSTEM DELIVERY POINT(S) AND AFTER THE RESIDUE GAS PASSES THROUGH THE RESIDUE GAS DELIVERY POINT(S), (ii) PRODUCER'S OWNERSHIP AND OPERATION OF THE WELLS LOCATED WITHIN THE CONTRACT AREA AND ANY FACILITIES OR EQUIPMENT INSTALLED OR MAINTAINED BY PRODUCER UPSTREAM OF THE GATHERING SYSTEM DELIVERY POINT, REGARDLESS OF WHETHER SUCH WAS REQUIRED BY THE TERMS OF THIS AGREEMENT, (iii) THE PERFORMANCE OF ANY OBLIGATIONS, RIGHTS OR DUTIES HEREUNDER, (iv) PRODUCER'S BREACH OF THIS AGREEMENT, OR (v) ANY VIOLATION OF THE LAW, REGARDLESS OF EITHER GATHERER'S OR PROCESSOR'S SOLE, CONCURRENT OR COMPARATIVE NEGLIGENCE. GATHERER HEREBY AGREES TO INDEMNIFY, HOLD HARMLESS, PROTECT, DEFEND AND DISCHARGE PROCESSOR

AND PRODUCER AND THEIR AFFILIATED COMPANIES, PARTNERS, SUCCESSORS, ASSIGNS, OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES AND AGENTS, FOR, FROM AND AGAINST ANY AND ALL JUDGMENTS, EXECUTIONS, CAUSES OF ACTION, DEMANDS, RIGHTS, SUITS, DEBTS AND SUMS OF MONEY, ACCOUNTINGS, DUES, PENALTIES, FINES, CLAIMS (INCLUDING, WITHOUT LIMITATION, CLAIMS FOR CONTRIBUTION), LIABILITIES, LOSSES, COSTS, DAMAGES AND EXPENSES (INCLUDING COURT COSTS, REASONABLE COSTS OR INVESTIGATION, DEFENSE AND ATTORNEY'S FEES) OF ANY NATURE, KIND OR DESCRIPTION BROUGHT BY ANY PERSON OR ENTITY, WHETHER LEGAL OR EQUITABLE, WHICH ARISE OUT OF, RESULT FROM OR ARE IN ANY WAY RELATED TO (i) GATHERER'S OWNERSHIP AND CONTROL OF THE GAS AFTER THE GAS PASSES THROUGH THE GATHERING SYSTEM DELIVERY POINT(S) AND PRIOR TO THE TIME THAT THE GAS PASSES THROUGH THE PLANT DELIVERY POINT(S), (ii) GATHERER'S OWNERSHIP AND OPERATION OF THE GATHERING SYSTEM, (iii) THE SERVICES PROVIDED BY GATHERER PURSUANT TO THIS AGREEMENT, (iv) GATHERER'S BREACH OF THIS AGREEMENT, OR (v) ANY VIOLATION OF THE LAW, REGARDLESS OF PRODUCER'S OR PROCESSOR'S SOLE, CONCURRENT OR COMPARATIVE NEGLIGENCE. PROCESSOR HEREBY AGREES TO INDEMNIFY, HOLD HARMLESS, PROTECT, DEFEND AND DISCHARGE GATHERER AND PRODUCER AND THEIR AFFILIATED COMPANIES, PARTNERS, SUCCESSORS, ASSIGNS, OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES AND AGENTS, FOR, FROM AND AGAINST ANY AND ALL JUDGMENTS, EXECUTIONS, CAUSES OF ACTION, DEMANDS, RIGHTS, SUITS, DEBTS AND SUMS OF MONEY, ACCOUNTINGS, DUES, PENALTIES, FINES, CLAIMS (INCLUDING, WITHOUT LIMITATION, CLAIMS FOR CONTRIBUTION), LIABILITIES, LOSSES, COSTS, DAMAGES AND EXPENSES (INCLUDING COURT COSTS, REASONABLE COSTS OR INVESTIGATION, DEFENSE AND ATTORNEY'S FEES) OF ANY NATURE, KIND OR DESCRIPTION BROUGHT BY ANY PERSON OR ENTITY, WHETHER LEGAL OR EQUITABLE, WHICH ARISE OUT OF, RESULT FROM OR ARE IN ANY WAY RELATED TO (i) PROCESSOR'S OWNERSHIP AND CONTROL OF THE GAS AFTER THE GAS PASSES THROUGH THE PLANT DELIVERY POINT(S) AND PRIOR TO THE TIME THAT THE RESIDUE GAS PASSES THROUGH THE RESIDUE GAS DELIVERY POINT(S) AND THE PLANT PRODUCTS PASS THROUGH THE PLANT PRODUCTS DELIVERY POINT , (ii) PROCESSOR'S OWNERSHIP AND OPERATION OF THE PLANT, (iii) THE SERVICES PROVIDED BY PROCESSOR PURSUANT TO THIS AGREEMENT, (iv) PROCESSOR'S BREACH OF THIS AGREEMENT, OR (v) ANY VIOLATION OF THE LAW, REGARDLESS OF GATHERER'S OR PRODUCER'S SOLE, CONCURRENT OR COMPARATIVE NEGLIGENCE. THE INDEMNIFICATION RIGHTS HEREIN SHALL BE CUMULATIVE OF, AND IN ADDITION TO, ANY AND ALL OTHER RIGHTS, REMEDIES OR RECOURSE OF THE PARTIES AND SHALL SURVIVE ANY EXPIRATION OR TERMINATION OF THIS AGREEMENT. TO THE EXTENT AND ONLY TO THE EXTENT THE FOREGOING INDEMNIFICATION RIGHTS ARE BY LAW, EITHER INAPPLICABLE OR NOT ENFORCEABLE, PRODUCER, GATHERER AND PROCESSOR SHALL EACH BE RESPONSIBLE FOR THE RESULTS OF ITS OWN

ACTIONS AND FOR THE ACTIONS OF THOSE PERSONS AND ENTITIES OVER WHICH IT EXERCISES CONTROL.

**ARTICLE XVIII -
FORCE MAJEURE**

In the event any Party is rendered unable, either wholly or in part, by force majeure to carry out its obligations under this Agreement, other than the obligation to make payments due hereunder, it is agreed that on such Party giving notice and full particulars of such inability by telephone and in writing to the other Parties 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 any act or event which wholly or partially prevents or delays the performance of obligations arising under this Agreement if such act or event is not reasonably within the control of and not caused by the fault or negligence of the Party claiming force majeure and which by the exercise of due diligence such Party is unable to prevent or overcome, including, without limitation, by the following enumeration: 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; explosion, breakage, or accidents 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 the inability of either Producer, Gatherer or Processor to acquire, or the delays on the part of either Producer, Gatherer or Processor in acquiring, at reasonable cost and after the exercise of reasonable diligence: (a) any servitude, rights-of-way grants, permits, or licenses; (b) any materials or supplies for the construction or maintenance of facilities; and (c) any permits or permissions from any governmental agency if such are required. It is understood and agreed that the settlement of strikes or 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 sole discretion of the Party having the difficulty.

**ARTICLE XIX -
UNPROFITABLE OPERATIONS AND RIGHTS OF TERMINATION**

19.1 If, in the sole and absolute opinion of Gatherer, the gathering of Gas from any well or wells, or any Gathering System Delivery Point, under this Agreement, is or becomes uneconomical due to its volume, government regulations, or any cause other than force majeure, Gatherer shall not be obligated to gather or may cease gathering the Gas therefrom so long as such condition exists. Gatherer agrees that in its determination of uneconomical gathering, the same criteria shall be used for the Gas as for all other gas being gathered through the Gathering System. In the event that Gatherer refuses to gather the Gas, Producer may dispose of the Gas not gathered as it sees fit; provided that

Gatherer at any time thereafter shall have the right to gather all of the Gas refused, if refused for reason or reasons resulting from an act of Producer or lack of action on the part of Producer, conditioned upon Gatherer giving Producer at least two (2) months' notice of its election so to do. In the event that Gatherer refuses to gather the Gas for a period of sixty (60) consecutive days causing Producer's well(s) to be shut-in, Producer shall have the option, exercised solely at its discretion, to terminate the Agreement in its entirety insofar and only insofar as it pertains to Gas produced from the affected well(s) by providing to Gatherer a thirty (30) days' advance written notice of such termination.

19.2 If, in the sole and absolute opinion of Processor, the processing of Gas from any well or wells, or any Gathering System Delivery Point, under this Agreement, is or becomes uneconomical due to its volume, Plant Product content, government regulations, or any cause other than force majeure, Processor shall not be obligated to process or may cease processing the Gas therefrom so long as such condition exists. Processor agrees that in its determination of uneconomical processing, the same criteria shall be used for the Gas as for all other gas being processed through the Plant. In the event that Processor refuses to process the Gas, Producer may dispose of the Gas not processed as it sees fit; provided that Processor at any time thereafter shall have the right to process all of the Gas refused, if refused for reason or reasons resulting from an act of Producer or lack of action on the part of Producer, conditioned upon Processor giving Producer at least two (2) months' notice of its election so to do. In the event that Processor refuses to process the Gas for a period of sixty (60) consecutive days and Gatherer is unable to by-pass the Plant in order to deliver Producer's gas to an alternative pipeline willing to accept Producer's unprocessed Gas causing Producer's well(s) to be shut-in, Producer shall have the option, exercised solely at its discretion, to terminate this Agreement insofar as it pertains to Gas produced from the affected well(s) by providing to Processor a thirty (30) days' advance written notice of such termination.

19.3 In the event Processor should at any time hereafter elect to permanently discontinue the operation of the Plant, Gatherer, Processor and Producer shall each have the option, exercised solely at its discretion, of terminating this Agreement in its entirety upon one hundred twenty (120) days advance written notice of such termination notice to the other Parties.

19.4 Nothing herein shall be construed to require Producer to drill any well or to continue to operate any well which a prudent operator would not in like circumstances drill or continue to operate.

19.5 It is agreed that neither Gatherer nor Processor shall be obligated to expand the Facilities in order to provide capacity hereunder.

ARTICLE XX - TERM

This Agreement shall be effective from the Effective Date and, subject to the other provisions hereof, shall continue in full force and effect until August 10, 2017 (the "Primary Term") and shall be automatically renewed for one (1) year periods thereafter unless on or

before ninety (90) days prior to the expiration of the Primary Term or the expiration of a one (1) year renewal period a Party hereto provides written notice of termination (the "Term").

ARTICLE XXI -
REGULATORY BODIES

This Agreement and the provisions hereof shall be subject to all valid applicable federal, state, and local laws, order, rules, and regulations. Producer, Gatherer and Processor have entered into this Agreement with the understanding, and in reliance on the fact, that this Agreement and/or performance of this Agreement are not and will not be subject to the jurisdiction or regulation of the Federal Energy Regulatory Commission ("FERC"). If this Agreement and/or performance of this Agreement becomes subject to such jurisdiction and/or regulation, this Agreement shall automatically terminate unless Producer, Gatherer and Processor agree, in writing, within thirty (30) days of the effective date of the attachment of any such jurisdiction and/or regulation, that this Agreement shall continue after such effective date.

ARTICLE XXII -
ARBITRATION

Any controversy between the Parties arising under ARTICLE X of this Agreement and not resolved by agreement shall be determined by a board of arbitration upon notice of submission given either by Processor, Gatherer or Producer, which request shall also name one arbitrator. The Parties receiving such notice shall, within ten (10) days thereafter, by notice to the others, jointly name the second arbitrator, or failing so to do, the Party giving notice of submission shall name the second. The two arbitrators so appointed shall name the third, or failing so to do within ten (10) days, then upon the written application of any Party, such third arbitrator may be appointed by the American Arbitration Association. The arbitrators selected to act hereunder shall be qualified by education, experience, and training to pass upon the particular question in dispute. The jurisdiction of the arbitrators will be limited to the single issue referred to arbitration, and the arbitration shall be conducted pursuant to the guidelines set forth by the American Arbitration Association; provided, however, that should there be any conflict between the guidelines and the procedures set forth in this Agreement, the terms of this Agreement shall control. Within fifteen (15) days following selection of the third arbitrator, each Party shall furnish the arbitrators in writing its position regarding the issue being arbitrated. The arbitrators may, if they deem necessary, convene a hearing regarding the issue being arbitrated. The arbitrators shall render their decision in writing within thirty (30) days after the appointment of the third arbitrator or the conclusion of the hearing, if one is held. If within said period a decision is not rendered by the arbitrators, new arbitrators may be named and shall act hereunder at the election of any of Processor, Gatherer or Producer in like manner as if none has been previously named. The arbitrators' decision shall be final and binding upon the Parties as to the issue submitted and the Parties will abide by and comply with such decision. The expenses of arbitration shall be borne equally by the Parties, except that each Party shall bear the compensation and expenses of its counsel, witnesses, and employees.

ARTICLE XXIII -
DISPUTES

23.1 Subject to the terms as set forth in ARTICLE XXII of this Agreement, should a dispute arise between the Parties, the Parties shall promptly seek to resolve any such dispute by negotiations among the senior executives of the Parties who have the authority to settle such dispute ("Senior Executives") prior to the initiation of any lawsuit. The Senior Executives shall meet at a mutually acceptable time and place within fifteen (15) days and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the dispute. All negotiations and communications pursuant to this ARTICLE XXIII shall be treated and maintained by the Parties as confidential information and shall be treated as compromise and settlement negotiations for purposes of the federal and state Rules of Evidence. If the matter has not been resolved within thirty (30) days after the initial meeting of the Senior Executives, or such longer period as may be mutually agreed upon, either Party may initiate a lawsuit.

23.2 THIS AGREEMENT, AND ALL QUESTIONS RELATING TO ITS VALIDITY, INTERPRETATION, PERFORMANCE AND ENFORCEMENT (INCLUDING, WITHOUT LIMITATION, PROVISIONS CONCERNING LIMITATIONS OF ACTIONS) SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, NOTWITHSTANDING ANY CONFLICT-OF-LAWS DOCTRINES OF SUCH STATE OR OTHER JURISDICTION TO THE CONTRARY. ALL MATTERS LITIGATED BY OR BETWEEN THE PARTIES THAT INVOLVE THIS AGREEMENT, THE RELATIONSHIP OF THE PARTIES, OR ANY RELATED DOCUMENTS OR MATTERS HEREUNDER SHALL BE BROUGHT ONLY IN FORT WORTH, TARRANT COUNTY, TEXAS.

23.3 In any suit filed by a Party hereto to resolve a dispute arising under this Agreement or related to the services provided hereunder, each Party hereby covenants and agrees to take all steps necessary to waive a trial by jury.

ARTICLE XXIV -
NOTICES AND PAYMENTS

Any notice, request, demand, statement, or bill provided for in this Agreement shall be in writing and delivered by hand, mail, or facsimile. All such written communications shall be effective upon receipt by the other party at the address of the parties hereto as follow:

Producer

Statements: Quicksilver Resources Inc.
 777 West Rosedale Street
 Fort Worth, TX 76104
 Attn: Revenue Accounting

Payments: Quicksilver Resources Inc.

777 West Rosedale Street
Fort Worth, TX 76104
Attn: Accounting

Contractual:

Quicksilver Resources Inc.
777 West Rosedale Street
Fort Worth, TX 76104
Attn: Marketing

Gatherer

Statements: Cowtown Pipeline Partners L.P.
777 West Rosedale Street
Fort Worth, TX 76104
Attn: Revenue Accounting

Payments: Cowtown Pipeline Partners L.P.
777 West Rosedale
Fort Worth, TX 76104
Attn: Accounting

Contractual: Cowtown Pipeline Partners L.P.
777 West Rosedale
Fort Worth, TX 76104
Attn: Marketing

Processor

Statements: Cowtown Gas Processing Partners L.P.
777 West Rosedale
Fort Worth, TX 76104
Attn: Revenue Accounting

Payments: Cowtown Gas Processing Partners L.P.
777 West Rosedale
Fort Worth, TX 76104
Attn: Accounting

Contractual: Cowtown Gas Processing Partners L.P.
777 West Rosedale
Fort Worth, TX 76104
Attn: Marketing

Any of the Parties may designate a further or different address by giving written notice to the other Parties.

ARTICLE XXV -
ASSIGNMENT

This Agreement (and a Party's rights and obligations hereunder) is assignable in whole or in part. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors, and assigns of the respective Parties hereto; provided that no transfer of or succession to the interest of any Party hereunder, either wholly or partially, shall affect or bind the other Parties until it shall have been furnished with the original instrument or with the proper proof that the claimant is legally entitled to such interest.

ARTICLE XXVI -
MISCELLANEOUS

26.1 No waiver by any Party of any one or more defaults in the performance of any provision of this Agreement shall operate or be construed as a waiver of any default or future defaults, whether of a like or different character.

26.2 This Agreement contains the entire agreement between the Parties and there are no oral promises, agreements, or warranties affecting it. This Agreement may be amended or modified from time to time only by the written agreement of all the Parties hereto; provided, however, that the Parties may not, without the prior approval of the Conflicts Committee (as such term is defined in the partnership agreement for Quicksilver Gas Services L.P. ("MLP"), the parent of Gatherer and Processor, agree to any amendment or modification of this Agreement that the general partner of MLP determines will adversely affect the holders of common units of MLP.

26.3 The provisions of this Agreement are enforceable by the Parties hereto and MLP, which is an intended third party beneficiary hereof. Except as described in the immediately preceding sentence, nothing in this Agreement, express or implied, is intended to confer upon any person other than the Parties hereto and MLP and their respective successors and assigns, any rights, benefits or obligations hereunder. No limited partner of the MLP shall have the right, separate and apart from MLP, to enforce any provision of this Agreement or to compel any Party to this Agreement to comply with the terms of this Agreement.

26.4 The descriptive headings of the provisions of these general provisions are formulated and used for convenience only and shall not be deemed to affect the meaning or construction of any such provisions.

26.5 This Agreement supersedes and replaces any other contract(s) or agreements(s) which may exist between the Parties covering the gathering and processing of the Gas dedicated hereunder; provided the Parties agree that a separate gathering agreement may be executed in substitution of this Agreement to provide for the gathering by Gatherer of gas produced from some portion of the dedicated Contract Area but which is deemed "dry" and not otherwise desirable or acceptable for processing at the Facilities.

26.6 Nothing in this Agreement is intended to create a partnership or joint venture under state law or to render the Parties hereto jointly and severally liable to any third party. Each of the Parties elects to be excluded from the provisions of Subchapter K, Chapter 1 of Subtitle A, of the Internal Revenue Code of 1986 pursuant to the provisions of Article 761(a) of such code and from any similar provisions of state law. Processor shall timely file such evidence of this election as may be required under applicable law.

26.7 Should any section, paragraph, subparagraph, or other portion of this Agreement be found invalid as a matter of law in a duly authorized court, or by a duly authorized government agency, then only that portion of the Agreement shall be invalid.

The remainder of the Agreement which shall not have been found invalid shall remain in full force and effect.

26.8 This Agreement was prepared jointly by the Parties hereunder and not by any Party to the exclusion of the other.

26.9 Producer recognizes and acknowledges Gatherer's and Processor's proprietary interest in this Agreement, and Producer agrees not to divulge any of the contents hereof to any other person, firm, corporation, or other entity. Producer agrees to be responsible for enforcing the confidentiality of this Agreement and agrees to take such action as necessary to prevent any disclosure by any of its agents or employees.

(SIGNATURE PAGE FOLLOWS)

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement in several originals to be effective as of the Effective Date.

PRODUCER

Quicksilver Resources Inc., a Delaware corporation

By: /s/ Stan Page

Stan Page

Vice President - U.S. Operations

GATHERER

Cowtown Pipeline Partners L.P., a Texas limited partnership

By: Quicksilver Gas Services Operating GP LLC, its general partner

By: /s/ Thomas F. Darden

Thomas F. Darden

President and Chief Executive Officer

PROCESSOR

Cowtown Gas Processing Partners L.P., a Texas limited partnership

By: Quicksilver Gas Services Operating GP LLC, its general partner

By: /s/ Thomas F. Darden

Thomas F. Darden

President and Chief Executive Officer

CERTIFICATION

I, Thomas F. Darden, President and Chief Executive Officer of Quicksilver Gas Services GP LLC, the general partner of Quicksilver Gas Services LP, the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quicksilver Gas Services LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2008

/s/ Thomas F. Darden
Thomas F. Darden
President and Chief Executive Officer

CERTIFICATION

I, Philip Cook, Senior Vice President — Chief Financial Officer of Quicksilver Gas Services GP LLC, the general partner of Quicksilver Gas Services LP, the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quicksilver Gas Services LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2008

/s/ Philip Cook
Philip Cook
Senior Vice President - Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the Quarterly Report on Form 10-Q of Quicksilver Gas Services LP (the “Registrant”) for the quarter ended September 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Philip Cook, Senior Vice President - Chief Financial Officer of Quicksilver Gas Services GP LLC, the general partner of the registrant, and Thomas F. Darden, President and Chief Executive Officer of Quicksilver Gas Services GP LLC, the general partner of the registrant, each certifies that, to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant as of the dates and for the periods expressed in the Report.

Date: November 5, 2008

By: /s/ Philip Cook
Philip Cook
Senior Vice President — Chief Financial Officer

By: /s/ Thomas F. Darden
Thomas F. Darden
President and Chief Executive Officer