BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Jay Scott Emler, Chairman
Shari Feist Albrecht
Pat Apple

In the Matter of the Application of Merit Energy Company, LLC, for an Order Authorizing the Unitization and Unit Operation of the Hylbom Morrow Unit in Finney and Kearny Counties, Kansas	)))))	Docket No. 17-CONS-3650-CUNI CONSERVATION DIVISION License No. 32446

APPLICATION

Merit Energy Company, LLC ("Merit") files this Application requesting an order from the State Corporation Commission of the State of Kansas ("Commission") authorizing the unitization and unit operation of the Hylbom Morrow Unit in Finney and Kearny Counties, Kansas, pursuant to K.S.A. 55-1301, et seq. In support of its Application, Merit states and alleges:

1. Merit is a Delaware limited liability company duly licensed, authorized, and active and in good standing with the Kansas Secretary of State's office to do business in Kansas. Merit's business address is 13727 Noel Road, Suite 1200, Dallas, Texas, 75240.

2. The Commission has issued Merit operator's license #32446, which license is in full force and effect through May 30, 2017.

3. Merit Hugoton, L.P., Merit Management Partners I, L.P., Merit Partners II, L.P., Merit Energy Partners III, L.P., Merit Energy Partners D-III, L.P., and Merit Energy Partners E-III, L.P. (collectively, "Merit Lessees"), are the owners of oil and gas leases covering the pool sought to be unitized by this Application. Merit has been designated the operator of the leases by Merit Lessees, and operates producing oil and gas wells on the leases on behalf of Merit Lessees. Merit is authorized to file this Application on behalf Merit Lessees.

4. The proposed Hylbom Morrow Unit would contain 800 contiguous mineral acres located in Finney and Kearny Counties, Kansas, which acreage is depicted on "Exhibit A" and is aerially described as follows ("Unit Area"):

Tract 1: E/2 Section 25-T23S-R35W, Kearny County, Kansas

Tract 2: W/2 Section 30-T23S-R34W, Finney County, Kansas

Tract 3: N/2 NE/4 Section 30-T23S-R34W, Finney County, Kansas

Tract 4: S/2 NE/4 Section 30-T23S-R34W, Finney County, Kansas

5. Merit proposes to unitize and operate the leasehold interests owned by Merit Lessees as to oil rights only insofar as they cover the Morrow formation ("Unitized Formation") underlying the Unit Area pursuant to K.S.A. 55-1304(a)(2) or, alternatively, pursuant to K.S.A. 55-1301(a)(1). Merit intends to conduct an enhanced oil recovery project within the Unitized Formation underlying the Unit Area. The enhanced oil recovery project would involve injecting water into the Unitized Formation in a patterned flood to increase reservoir pressure and displace oil from injection wells towards producing wellbores in order to efficiently and economically increase the ultimate recovery of oil from the pool within the Unitized Formation underlying the Unit Area. The development plan attached as Exhibit E to the Joint Operating Agreement (Exhibit C) describes the proposed enhanced oil recovery project in greater detail.

6. Oil produced from the Hylbom Morrow Unit will be allocated across the above-described four tracts based upon five weighted tract participation factors.[1] The five tract participation factors and weight afforded to each are described in Article 5 of the Unit Agreement (Exhibit B). The application of the weighted participation factors to calculate the oil production

[1] Merit does not anticipate and it is geologically improbable that marketable quantities of gas would be produced in connection with the enhanced oil recovery operation proposed hereunder. In the event gas is produced, however, gas royalties and revenues will be paid according to the terms of the oil and gas leases or existing gas units, whichever is applicable.

to be allocated to each of the four tracts is set forth in Exhibits 2 and 3 to the Unit Agreement (Exhibit B).

7. Merit will be the unit operator.

8. The pool to be unitized is within the Unitized Formation (Morrow formation) beneath the Unit Area, the stratigraphic equivalent of which is shown on the well log of the Hylbom A-2 well to be between the depths of 4,584' measured from surface (-1,591' subsea) and 4,837' measured from surface (-1,844' subsea).

9. The unitized management, operation and further development of the pool within the Unitized Formation is economically feasible and reasonably necessary to prevent waste, and thereby increase substantially the ultimate recovery of oil. Further, primary production from the pool within the Unitized Formation has reached a low economic level and, without introduction of artificial energy, abandonment of oil wells is imminent.

10. The value of the estimated additional recovery of the oil from the Unitized Formation substantially exceeds the estimated additional cost incident to conducting the proposed enhanced oil recovery operations.

11. The Unit Agreement and Joint Operating Agreement comprising Merit's Plan for Unit Operations ("Plan") are attached hereto as "Exhibit B" and "Exhibit C," respectively. The proposed operations outlined in the Plan are fair, reasonable and equitable to all interest owners.

12. The Plan has been approved in writing by at least 63% of the persons required to pay the costs of the unit operation, and by the owners of at least 75% of the production or proceeds that will be credited to royalties, excluding overriding royalties or other like interests which are carved out of the leasehold estate. Merit Lessees own 100% of the working interests in the oil and gas leases covering the Unit Area and Unitized Formation. Merit has obtained written consent to

the Unit Agreement from the owners of 80.76% of the production or proceeds that will be credited to royalties under the Unit Agreement.

13. The attached "Exhibit D" contains a tabular listing of the names and addresses of all oil and gas lessees and other oil and gas interest owners owning interests in the Unitized Formation beneath the Unit Area whose names and addresses Merit has been able to determine after diligent search and inquiry. This includes lessors, mineral owners, overriding royalty interest owners, and mortgagees of oil and gas interests of record.

14. Merit has sent a copy of this Application and the Notice of Application by regular mail to all persons listed on Exhibit D, has hand-delivered the same to Merit Lessees, and is causing the Notice of Application to be published in *The Wichita Eagle,* the *Garden City Telegram*, the official newspaper for Finney County, Kansas, and *The Lakin Independent*, the official newspaper for Kearny County, Kansas. As a result, notice complies with K.S.A. 55-1310 and Commission regulations, and is lawful and proper in all respects. Each publisher's affidavit will be provided to the Commission upon and after the date of publication of the Notice of Application.

15. Merit requests that the Commission issue an Order authorizing the unitization and unit operation of the Hylbom Morrow Unit pursuant to K.S.A. 55-1301, *et seq.*, after due notice and hearing.

WHEREFORE, Merit prays that the Commission docket this Application and, if no written protest is received within 15 days after Notice of the Application is published and has been duly provided to all interested parties, administratively grant this Application and issue an order providing for the unitization and unit operation of the Hylbom Morrow Unit pursuant to the Plan. In the event a timely and proper protest is filed, Merit requests that the Commission set this

Application for hearing, and upon such hearing grant the requested order and make such other provisions as it deems necessary and proper.

Respectfully submitted,

MORRIS, LAING, EVANS, BROCK
& KENNEDY, CHARTERED

By: _____

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Attorneys for Merit Energy Company, LLC

VERIFICATION

STATE OF KANSAS)
) ss:
COUNTY OF SEDGWICK)

Jonathan A. Schlatter, being of lawful age and being first duly sworn upon his oath, deposes and says:

That he is the attorney for Merit Energy Company, LLC, and he has read the above and forgoing Application and is familiar with the contents and that the statements made therein are true and correct to the best of his knowledge and belief.

Jonathan A. Schlatter

SUBSCRIBED AND SWORN to before me this 5th day of May, 2017.

Carnella D Anderson
Notary Public

My Appointment expires:

NOTARY PUBLIC - State of Kansas
CARNELLA D. ANDERSON
My Appt Expires 6-7-19

CERTIFICATE OF SERVICE

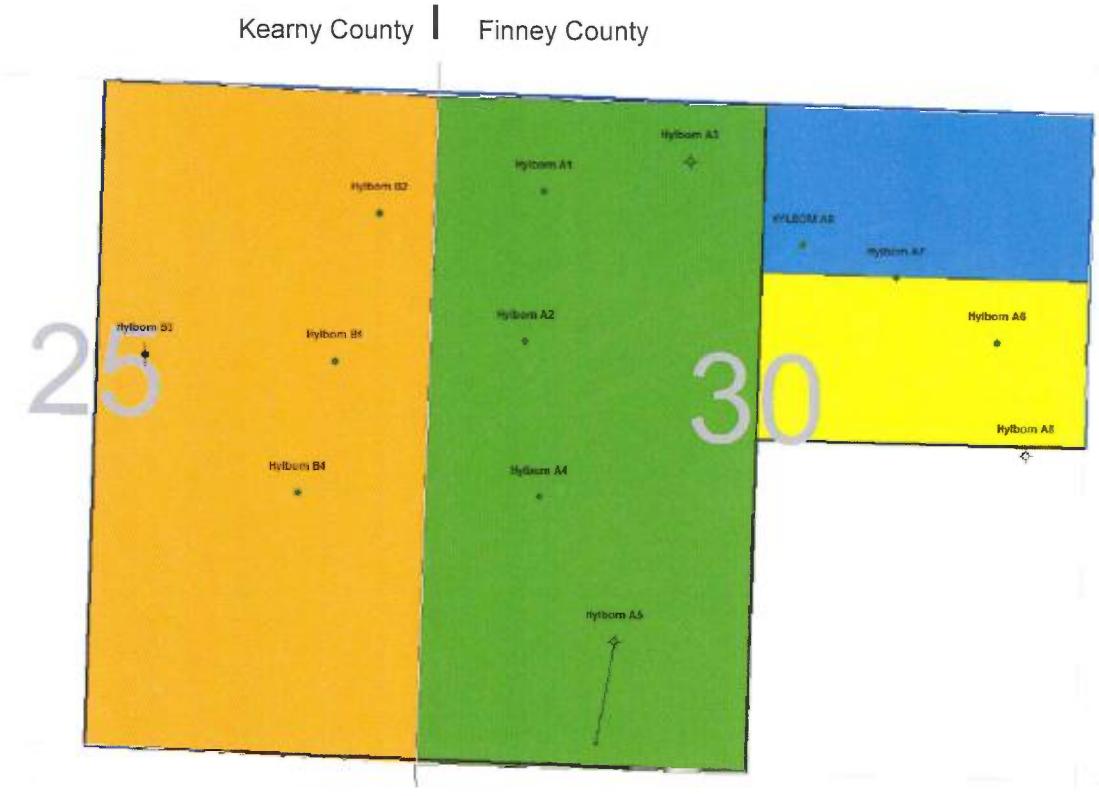
I, Jonathan A. Schlatter, hereby certify that on this 5th day of May, 2017, I caused the original of the foregoing Application with its attached Exhibits A, B, C, and D, and the Notice of Application to be electronically filed with the Conservation Division of the State Corporation Commission of the State of Kansas, and caused true and correct copies of the same to be deposited in the United States Mail, first class, postage prepaid, and properly addressed to the parties listed on Exhibit D to the Application, except as provided in paragraph 14 of the Application.

Jonathan A. Schlatter, #24848

EXHIBIT A

To the Application of Merit Energy Company, LLC (#32446) for an order authorizing the unitization and unit operation of the Hylbom Morrow Unit

Depiction and Description of the Unit Area



Tract No.	Legal Description
Tract 1	Sec. 25: T23S-R35W E/2
Tract 2	Sec. 30: T23S-R34W W/2
Tract 3	Sec. 30: T23S-R34W N/2 NE/4
Tract 4	Sec. 30: T23S-R34W S/2 NE/4

EXHIBIT B

To the Application of Merit Energy Company, LLC (#32446) for an order authorizing the unitization and unit operation of the Hylbom Morrow Unit

Unit Agreement

UNIT AGREEMENT
HYLBOM MORROW UNIT

TRACT 1: E/2 Sec. 25-T23S-R35W
TRACT 2: W/2 Sec. 30-T23S-R34W
TRACT 3: N/2 NE/4 Sec. 30-T23S-R34W
TRACT 4: S/2 NE/4 Sec. 30-T23S-R34W

KEARNY & FINNEY COUNTY, KANSAS

UNIT AGREEMENT – HYLBOM MORROW UNIT

KEARNY & FINNEY COUNTY, KANSAS

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UNIT AGREEMENT
HYLBOM MORROW UNIT
KEARNY & FINNEY COUNTY, KANSAS

THIS UNIT AGREEMENT ("**Agreement**") is entered into this ___ day of _____, 2017, effective as of the Effective Date, by the Parties who have signed the original, a counterpart, or other instrument agreeing to become a Party hereto, or who are so bound by Order of the State Corporation Commission of the State of Kansas ("**Commission**") issued pursuant to Kansas Statutes Annotated, Section 55-1301, et seq.

WITNESSETH:

WHEREAS, to achieve greater ultimate recovery of Unitized Substances, to prevent waste, and to protect correlative rights of interest owners, the signatory Parties have entered into this Unit Agreement applicable to the HYLBOM MORROW UNIT, located in Kearny and Finney County, Kansas. The purpose of the Agreement is to unitize Oil Rights in and to the Unitized Formation in order to conduct Unit Operations as provided herein.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, it is agreed as follows:

ARTICLE 1
DEFINITIONS

As used in this Agreement:

1.1 **Effective Date** is the time and date this Agreement becomes effective, as provided in Article 15.1.

1.2 **Oil Rights** are the rights to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

1.3 **Outside Substances** are all substances purchased or otherwise obtained for a consideration by Unit Operator and introduced into the Unitized Formation.

1.4 **Party** is any individual, corporation, partnership, association, receiver, trustee, curator, executor, administrator, guardian, tutor, fiduciary, or other representative of any kind, any department,

agency, or instrumentality of the state, or any governmental subdivision thereof, or any other entity capable of holding an interest in the Unitized Formation.

1.5 Royalty Interest is a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.

1.6 Royalty Owner is a Party hereto who owns a Royalty Interest (excluding overriding royalty or other like interest owners).

1.7 Tract is the land described, depicted and identified by tract number in "Exhibit 1."

1.8 Tract Participations are the percentages shown on "Exhibit 2" for allocating Unitized Substances to a Tract, as described in Article 5.1 and "Exhibit 3."

1.9 Unit Area is the land described by Tracts in "Exhibit 2" and depicted on "Exhibit 1."

1.10 Unit Equipment is all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

1.11 Unit Expense is all cost, expense, or indebtedness incurred by the Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

1.12 Unit Operations are any and all operations conducted pursuant to this Agreement and the Unit Operating Agreement, regardless of whether such operations constitute enhanced recovery methods.

1.13 Unit Operating Agreement is the agreement entered into by the Working Interest Owners, having the same Effective Date as this Agreement, and titled "Hylbom Morrow Unit Operating Agreement" dated _____, 2017," and with this Agreement constitutes the Plan for Unit Operations.

1.14 Unit Operator is the Working Interest Owner under the Unit Operating Agreement elected to conduct Unit Operations, but acting as operator and not as Working Interest Owner.

1.15 Unit Participation is the total Tract Participations percentage interest in the Unit Area associated with a particular Royalty Interest Owner and Working Interest Owner as shown on "Exhibit 4" and "Exhibit 5."

1.16 Unitized Formation means the subsurface portion of the Unit Area described as the common source of supply of oil underlying the Unit Area known as the Morrow formation as such

formation is shown on the well log of the Hylbom A2 (API#15-055-22187) between the depths of 4,584' MD (-1,591' TVDSS) and 4,837' MD (-1,844' TVDSS), it being intended that the covered depths include all the stratigraphic equivalent of said Morrow Formation.

1.17 Unitized Substances are all oil and all its associated and constituent parts within or produced from the Unitized Formation, other than Outside Substances.

1.18 Working Interest is an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, the owner of which is obligated to pay, either in cash or out of production or otherwise, the Unit Expense; however, Oil Rights that are free of lease or other instrument creating a Working Interest shall be regarded as Working Interest to the extent of seven-eighths (7/8) thereof and a Royalty Interest to the extent of the remaining one-eighth (1/8) thereof. A Royalty Interest created out of a Working Interest subsequent to the execution of this Agreement by the owner of such Working Interest shall continue to be subject to such Working Interest burdens and obligations that are stated in this Agreement and the Unit Operating Agreement.

1.19 Working Interest Owner is a Party hereto who owns a Working Interest.

ARTICLE 2
EXHIBITS

2.1 Exhibits. The following exhibits, which are attached hereto, are incorporated herein by reference:

2.1.1 "Exhibit 1" consists of a map showing the boundary lines of the Unit Area and the identified Tracts therein.

2.1.2 "Exhibit 2" is a schedule that describes each Tract in the Unit Area and shows its Tract Participations.

2.1.3 "Exhibit 3" is a schedule that shows the calculation of Tract Participations for each Tract.

2.1.4 "Exhibit 4" is a tabulation of the owners of the production proceeds of Unitized Substances that will be credited to royalties, excluding overriding royalties or other

like interests carved out of the leasehold estate (referred to therein as "Royalty Owners") as outlined in the Net Revenue and Tract Participation columns.

2.1.5 **"Exhibit 5"** is a tabulation of the persons who will be required to pay the costs of Unit Operations (referred to therein as "Working Interest Owners") as outlined in the Working Interest column.

2.2 **Reference to Exhibits.** When reference is made to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

2.3 **Exhibits Considered Correct.** "Exhibit 1", "Exhibit 2", "Exhibit 3", "Exhibit 4" and "Exhibit 5" shall be considered to be correct until revised as herein provided.

2.4 **Correcting Errors.** The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse Working Interest or Royalty Interest ownership on the Effective Date, should have been divided into more than one Tract, or that any mechanical miscalculation or clerical error has been made, Unit Operator shall correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participations. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each such revision thereafter made shall be effective at 9:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Unit Operator and set forth in the revised exhibit.

2.5 **Filing Revised Exhibits.** If an exhibit is revised, Unit Operator shall execute an appropriate instrument stating the effective date for the revised exhibit with the revised exhibit attached stating the effective date for the revised exhibit and file the same with the Commission.

ARTICLE 3
CREATION AND EFFECT OF UNIT

3.1 **Oil Rights Unitized.** All Oil Rights of Royalty Owners in and to the lands depicted in "Exhibit 1" and described in "Exhibit 2", and all Oil Rights of the Working Interest Owners in and to said

lands, are hereby unitized insofar as the respective Oil Rights pertain to the Unitized Formation, so that Unit Operations may be conducted with respect to the Unitized Formation as if the Unit Area had been included in a single lease executed by all Royalty Owners, as lessors, in favor of the Working Interest Owners, as lessees, and as if the lease contained all of the provisions of this Agreement.

3.2 Personal Property Excepted. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners.

3.3 Amendment of Leases and Other Agreements. The provisions of the various leases, agreements, division and transfer orders, or other instruments pertaining to the respective Tracts or the production therefrom are amended to the extent necessary to make them conform to the provisions of this Agreement, but otherwise shall remain in full force and effect. Royalty Owners agree that any default, forfeiture, or penalty provision in any such oil and gas lease or other contract shall be suspended and of no force or effect during the term of this Agreement.

3.4 Continuation of Leases and Term Interests. Production from any part of the Unitized Formation, except for the purpose of determining payments to Royalty Owners, or other Unit Operations shall be considered as production from or operations upon each Tract, and such production or operations shall continue in effect each lease, term mineral interest or royalty interest as to all lands and formations covered thereby just as if such operations were conducted on and as if a well were producing from each Tract.

3.5 Titles Unaffected by Unitization. Nothing herein shall be construed to result in the transfer of title to Oil Rights by any Party to any other Party or to Unit Operator.

3.6 Unitized Operation Rights. Royalty Owners hereby grant the Working Interest Owners the right to conduct unitized management, operation and further development of the Unitized Formation as economically feasible and reasonably necessary to prevent the waste of Unitized Substances in the Unitized Formation and thereby substantially increase the ultimate recovery of Unitized Substances together with the right to drill, use, and maintain injection and disposal wells, and non-potable water supply wells on the

Unit Area, including as provided in Article 10.2, and to use for injection, disposal or water supply purposes any nonproducing or abandoned wells or dry holes, and any producing wells completed in the Unitized Formation, or which can be recompleted into the Unitized Formation.

3.7 Development Obligation. Nothing herein shall relieve the Working Interest Owners from any obligation to reasonably develop the lands and leases committed hereto, except as the same may conflict with the provisions hereof and Unit Operations which may be conducted hereunder.

3.8 Cooperative Agreements. Unit Operator may enter into cooperative agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

ARTICLE 4
PLAN OF OPERATIONS

4.1 Unit Operator. MERIT ENERGY COMPANY, LLC is hereby designated as the initial Unit Operator. Unit Operator shall have the exclusive right to conduct Unit Operations, which shall conform to the provisions of this Agreement and the Unit Operating Agreement. If there is any conflict between such Agreements, this Agreement shall govern.

4.2 Method of Operation. To the extent that the quantity of Unitized Substances ultimately recoverable may be increased and waste prevented, the Working Interest Owners shall, with diligence and in accordance with good engineering and production practices, engage in unitized management, operation and further development of the Unitized Formation to efficiently and economically increase the ultimate recovery of Unitized Substances. The Unit Operator plans to employ enhanced recovery methods deemed necessary or desirable to efficiently and economically increase the ultimate recovery of Unitized Substances, and may include any of the following activities as authorized by Article 10.2:

(a) Drilling one or more wells for the purpose of injecting water, gas, or other fluids, or combinations thereof, into the Unitized Formation;

(b) Utilizing of one or more existing wells for the purpose of injecting water, gas, or other fluids, or combinations thereof, into the Unitized Formation;

(c) Drilling one or more water source wells to support enhanced recovery

(d) Drilling or working over one or more wells for the purpose of producing Unitized Substances from the Unitized Formation;

(e) Drilling one or more wells for the purpose of saltwater disposal.

Unit Operator may utilize more than a single tank battery for storage of Unitized Substances.

4.3 Change of Method of Operation. Nothing herein shall prevent the Working Interest Owners from discontinuing or changing in whole or in part any method of operation which, in their opinion, is no longer appropriate or in accord with good engineering or production practices. Other methods of operation may be conducted or changes may be made by the Working Interest Owners from time to time if determined by them to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances.

ARTICLE 5
TRACT PARTICIPATIONS

5.1 Tract Participations. The Tract Participations of each Tract are scheduled on "Exhibit 2" and calculated on "Exhibit 3." Beginning on the Effective Date the Tract Participations for each Tract shall be based upon the following factor and formula:

Single Phase: Participation will be allocated based upon four factors:

(1) The number of usable wellbores existing within each tract as a percentage of the total number of usable wellbores existing on all Tracts. For the purposes of this Agreement, a usable wellbore is a well existing on the Unit Area and drilled through the Morrow formation, whether active or inactive, that positively benefits flood development.

(2) The original oil-in-place (OOIP) in the Unitized Formation beneath each Tract as a percentage of the total OOIP in the Unitized Formation beneath the Unit Area.

(3) Cumulative production from each Tract, which is defined as the volume of oil produced by wells within each Tract (beginning from the field's discovery date through January 2017) as a percentage of the total volume of oil produced by all wells on all Tracts (beginning from the field's discovery date through January 2017).

(4) The remaining primary recovery oil reserves in place beneath each Tract as a percentage of the total amount of remaining primary recovery oil reserves in place beneath the Unit Area.

(5) The average last three months oil production rate, measured in barrels per day, from each Tract as a percentage of the total average oil production rate from the Unit Area. The average oil production factor is based upon oil production from November 1, 2016 through January 31, 2017 from producing wells on the Unit Area.

Tract Participations will be calculated using a weighted average of all four factors listed above, wherein the number of usable wells will be weighted 5%, OOIP will be weighted 40%, cumulative production will be weighted 5%, remaining primary recovery oil reserves will be weighted 25%, and the average oil production rate will be weighted 25%.

The Tract Participations as scheduled on "Exhibit 2" and calculated on "Exhibit 3" are accepted and approved by the signatory Parties hereto as being fair and equitable. The Unitized Substances produced hereunder shall be allocated among the Parties according to the respective Tract Participations.

5.2 Relative Tract Participations. If the Unit Area is enlarged or reduced, the revised Tract Participations of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another.

ARTICLE 6
ALLOCATION OF UNITIZED SUBSTANCES

6.1 Allocation to Tracts. All Unitized Substances produced and saved shall be allocated to the several Tracts in accordance with the respective Tract Participations effective during the period that the Unitized Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether the amount is more or less than the actual production of Unitized Substances from a particular Tract, shall be deemed for all purposes to have been produced from such Tract.

6.2 Distribution Within Tracts. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the Parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and

shared in the production from such Tract, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal effect. If any Oil Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

6.3 Taking Unitized Substances in Kind. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Parties entitled thereto by virtue of the ownership of Oil Rights therein or by purchase from such owners. Such Parties shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of Unitized Substances shall be borne by the owner of such portion of Unitized Substances.

6.4 Failure to Take in Kind. If any Party fails to take in kind or separately dispose of such Party's share of Unitized Substances, Unit Operator shall have the right, but not the obligation, for the time being and subject to revocation at will by the Party owning the share, to purchase or sell to others such share; however, all contracts of sale by Unit Operator of any other Party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the Parties entitled thereto.

6.5 Responsibility for Royalty Settlements. Unit Operator of Unitized Substances shall be responsible for the payment of all royalties, overriding royalties, production payments and all other payments chargeable against or payable out of the proceeds from the sale of Unitized Substances. Unit Operator shall not indemnify any Party against any liability for such payment except to the extent that such liability is caused by or attributable to Unit Operator's gross negligence or willful misconduct. Unit

Operator shall have complete and sole discretion in determining whether Unit Operator or the purchaser of production is responsible for any or all of the production payments described herein.

6.6 Royalty on Outside Substances. No payment shall be due or payable to Royalty Owners on substances produced from the Unitized Formation that are deemed to be Outside Substances.

ARTICLE 7
PRODUCTION AS OF THE EFFECTIVE DATE

7.1 Oil or Liquid Hydrocarbons in Lease Tanks. Unit Operator shall gauge or otherwise determine the amount of merchantable oil or other liquid hydrocarbons produced from the Unitized Formation that are in lease tanks as of 9:00 a.m. on the Effective Date. Any such merchantable oil or other liquid hydrocarbons shall remain the property of the Parties entitled thereto as if this Agreement had not been entered into. Any such merchantable oil or other liquid hydrocarbons not promptly removed may be sold by Unit Operator for the account of the Working Interest Owners entitled thereto, who shall pay all royalty due thereon under the provisions of applicable leases or other contracts.

ARTICLE 8
USE OR LOSS OF UNITIZED SUBSTANCES

8.1 Use of Unitized Substances. Unit Operator may use or consume Unitized Substances for Unit Operations, including but not limited to the injection thereof into the Unitized Formation.

8.2 Royalty Payments. No royalty, overriding royalty, production, or other payments shall be payable on account of Unitized Substances used, lost, or consumed in Unit Operations.

ARTICLE 9
TITLES

9.1 Warranty and Indemnity. Each Person who, by acceptance of produced Unitized Substances or the proceeds thereof, may claim to own a Working Interest or Royalty Interest in and to any Tract or in the Unitized Substances allocated thereto, shall be deemed to have warranted its title to such interest, and, upon receipt of the Unitized Substances or the proceeds thereof to the credit of such interest, shall indemnify and hold harmless all other Persons in interest from any loss due to failure, in whole or in part, of its title to any such interest.

9.2 Production Where Title is in Dispute. If the title or right of any Party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator shall, in its sole discretion, either:

(a) require that the Party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such Party fails in whole or in part, or

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise, whereupon the proceeds so impounded shall be paid to the Party rightfully entitled thereto.

9.3 Payment of Taxes to Protect Title. The owner of surface rights to lands within the Unit Area, or severed mineral interests or Royalty Interests in such lands, or lands outside the Unit Area on which Unit Equipment is located, is responsible for the payment of any ad valorem taxes on all such rights, interests, or property, unless such owner and Working Interest Owners otherwise agree. If any ad valorem taxes are not paid by or for such owner when due, Unit Operator may, at any time prior to tax sale or expiration of period of redemption after tax sale, pay the tax, redeem such rights, interests, or property, and discharge the tax lien. Any such payment shall be an item of Unit Expense. Unit Operator shall, if possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due any delinquent taxpayer an amount sufficient to defray the cost of such payment or redemption, such withholding to be credited to the Working Interest Owners. Such withholding shall be without prejudice to any other remedy available to Unit Operator as a Working Interest Owner.

9.4 Transfer of Title. Any conveyance of all or any part of any interest owned by any Party hereto with respect to any Tract shall be made expressly subject to this Agreement. No change of title shall be binding upon Unit Operator, or upon any Party hereto other than the Party so transferring, until 9:00 a.m. on the first day of the calendar month next succeeding the date of receipt by Unit Operator of a certified copy of the recorded instrument evidencing such change in ownership.

ARTICLE 10
EASEMENTS OR USE OF SURFACE

10.1 Grant of Easements. Unit Operator shall have the right to use as much of the surface of the land within the Unit Area as may be reasonably necessary for Unit Operations and the removal of Unitized Substances from the Unit Area; however, nothing herein shall be construed as leasing or otherwise conveying to Unit Operator a campsite or a plant site for gas processing.

10.2 Use of Water and Other Substances. Unit Operator shall have and is hereby granted free use of non-potable water from the Unit Area for Unit Operations, except water from any well, lake, pond, or irrigation ditch of a Royalty Owner. Unit Operator may convert dry or abandoned wells in the Unit Area for use as water supply, injection or disposal wells. Unit Operator may drill new wells for non-potable water supply. Unit Operator may bring Outside Substances, including water, gas and other fluids and other substance, onto the Unit Area for use in Unit Operations and may inject such Outside Substances into the Unitized Formation.

10.3 Surface Damages. Unit Operator shall pay the surface owner for actual damages to the surface of the Unit Area, including damages to growing crops, timber, fences, improvements, and structures, that directly result from Unit Operations, and any such damages paid shall be a Unit Expense.

ARTICLE 11
CHANGES AND AMENDMENTS

11.1 Changes and Amendments. The Unit Area may be changed and this Agreement or the Unit Operating Agreement may be amended. Any such change or amendment shall be in accordance with Kansas Statutes Annotated, Section 55-1301 et seq.

ARTICLE 12
RELATIONSHIP OF PARTIES

12.1 No Partnership. The duties, obligations, and liabilities of the Parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any

one or more of the Parties hereto. Each Party hereto shall be individually responsible for its own obligations as herein provided.

12.2 No Joint Refining or Marketing. This Agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any joint refining or marketing of Unitized Substances.

12.3 Royalty Owners Free of Unit Expense. This Agreement shall not be construed to impose upon any Royalty Owner any obligation to pay Unit Expense unless such Royalty Owner is otherwise so obligated.

ARTICLE 13
LAWS AND REGULATIONS

13.1 Laws and Regulations. This Agreement shall be subject to all applicable federal, state, and municipal laws, rules, regulations, and orders.

13.2 Governing Law. This Agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the laws of the state of Kansas.

ARTICLE 14
FORCE MAJEURE

14.1 Force Majeure. If any Party is rendered unable, wholly or in part, by reason of force majeure to carry out its obligations under this Agreement, other than the obligation to make money payments, such Party shall give to all other Parties prompt written notice of the force majeure with reasonably full particulars concerning the force majeure. Thereupon, the obligations of the Party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected Party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable, but neither this Agreement nor any lease or other instrument subject hereto shall be terminated by reason of the suspension of Unit Operations due to the occurrence of any event(s) of force majeure. The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by

the Party involved, contrary to its wishes, and the manner in which all such difficulties shall be handled shall be entirely within the discretion of the Party concerned. The term "force majeure," as here employed, shall mean any act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockage, public riot, lightning, fire, storm, flood, explosion, governmental laws, rules, regulations, orders, action, delay, restraint or inaction, unavailability of equipment, or inability to secure materials, or any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the Party claiming suspension.

ARTICLE 15
EFFECTIVE DATE

15.1 Effective Date. This Agreement shall become effective at 9:00 a.m. on the date: (i) the Commission issues its Order approving the plan of unit operations as set forth in this Agreement and the Unit Operating Agreement, (ii) upon the effective date prescribed by K.S.A. 55-1317 for the contract for the unit operation of a pool or part thereof, should the requisite percentage of Royalty Owners and Working Interest Owners approve this Agreement in writing, or (iii) the date Unit Operator commences Unit Operations should all Royalty Owners and Working Interest Owners enter into this Agreement, whichever of the foregoing events is earlier.

15.2 Ipso Facto Termination. If this Unit is not made effective within twelve (12) months after the date of issuance of the Order of the Commission approving same, because prior thereto Working Interest Owners owning a combined Unit Participation of at least sixty-three percent (63%) and Royalty Owners having a combined percentage interest in the Unit Area of at least sixty-three (63%) of the production credited to Royalty Interests have not become Parties to this Agreement, this Agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect. If the Unit Operator seeks from the Commission for good cause an extension of the termination date for a period not to exceed sixty (60) days, and the termination date is so extended, but this Unit is not made effective on or before the extended termination date, this Agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect.

15.3 Certificate of Effectiveness. Upon this unit going into effect, the Unit Operator shall promptly file with the Commission a certificate stating the Effective Date.

15.4 Unit Participation. For the purposes of this Article 15, Unit Participation shall be based on the Tract Participations shown on the original "Exhibit 2" and "Exhibit 3."

ARTICLE 16
TERM

16.1 Term. The term of this Agreement, unless sooner terminated in the manner hereinafter provided, shall be for and during the time that Unitized Substances are produced in paying quantities without a cessation of more than 180 consecutive days, or so long as other Unit Operations are conducted without a cessation of more than 180 consecutive days.

16.2 Termination by Unit Operator. This Agreement may be terminated by the Working Interest Owners with Unit Participation of more than fifty percent (50%) whenever the Unit Operator determines that Unit Operations are no longer profitable or feasible.

16.3 Effect of Termination. Upon termination of this Agreement, the further development and operation of the Unitized Formation as a unit shall be abandoned, and Unit Operations shall cease. Each oil and gas lease and other agreement covering lands within the Unit Area shall remain in force for sixty (60) days after the date on which this Agreement terminates, and for such further period as is provided by the lease or other agreement.

16.4 Salvaging Equipment Upon Termination. If not otherwise granted by the leases or other instruments affecting the separate Tracts, Unit Operator shall have a period of six (6) months after the date of termination of this Agreement within which to salvage and remove Unit Equipment.

16.5 Certificate of Termination. Upon termination of this Agreement, Unit Operator shall submit to the Commission a certificate stating that this Agreement has terminated, stating its termination date.

ARTICLE 17
EXECUTION

17.1 Original, Counterpart, or Other Instrument. An owner of Oil Rights may approve this Agreement by signing the original, a counterpart thereof, or other instrument approving this Agreement. The signing of this Agreement or any such instrument shall have the same effect as if all Persons had signed this Agreement and shall constitute approval of the entire plan for unit operations comprised of this Agreement and the Unit Operating Agreement.

17.2 Joinder in Dual Capacity. Execution as herein provided by any Party as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such Party in the Unit Area.

ARTICLE 18
DETERMINATIONS BY WORKING INTEREST OWNERS

18.1 Determinations by Unit Operator. All decisions, determinations, or approvals by Unit Operator shall be made pursuant to this Agreement and consistent with the Unit Operating Agreement, as may be applicable, unless otherwise provided herein.

ARTICLE 19
GENERAL

19.1 Amendments Affecting Unit Operator. Amendments hereto relating wholly to Unit Operations may be made with a sixty-three (63%) vote of the Working Interest Owners unless otherwise provided herein.

19.2 Action by Royalty Owners. Except as otherwise provided in this Agreement, any action or approval required by Royalty Owners hereunder shall be in accordance with the provisions of this Agreement and the Unit Operating Agreement, as may be applicable.

19.3 Lien and Security Interest of Unit Operator. Unit Operator shall have a lien upon and a security interest in the interests of the other Working Interest Owners and the Royalty Owners in the Unit Area only to any extent provided by law. Notwithstanding the foregoing, the Unit Operator shall have the lien and security interest described in the Unit Operating Agreement.

19.4 Headings for Convenience. Except for the headings contained in Article 1, the headings and table of contents used in this Agreement are inserted for convenience only and shall be disregarded in construing this Agreement.

19.5 Severability of Provisions. The provisions of this Agreement are severable and if any section, sentence, clause or part thereof is held to be invalid for any reason, such invalidity shall not be construed to affect the validity of the remaining provisions of this Agreement. In the event any provision now or later becomes inconsistent with any law, rule or regulation of the applicable governing body, or is modified by order of the applicable governing body, this Agreement shall be modified to the extent necessary to comply with said law, rule, regulation or order.

19.6 Construction. When reading this Agreement, the use of the plural indicates the singular, and the use of the singular indicates the plural. When an Agreement refers to time, such time shall be read and interpreted as United States Central Time. This Agreement is to be read together with its exhibits, as amended.

19.7 Obligations to the Commission. Where this Agreement creates an obligation on the part of Unit Operator or Working Interest Owner to report, file, notify or otherwise communicate with the Commission, such action shall only be required in the event this Agreement is authorized by the Commission pursuant to K.S.A. 55-1301, et seq. Likewise, any requirement that this Agreement be performed in accordance with K.S.A. 55-1301, et seq. shall only be applicable if this Agreement is authorized by the Commission pursuant to such statutes.

ARTICLE 20
SUCCESSORS AND ASSIGNS

20.1 Successors and Assigns. This Agreement shall extend to, be binding upon, and inure to the benefit of the Parties hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the dates opposite their respective signatures.

[Signature pages follow]

Unit Operator

MERIT ENERGY COMPANY, LLC

_____
Name: Christopher S. Hagge
Title: Vice President

STATE OF TEXAS)
) SS
COUNTY OF DALLAS)

This instrument was acknowledged before me on this _____ day of _____, 2017, by Christopher S. Hagge, as Vice President of Merit Energy Company, LLC, on behalf of said company.

_____
Notary Public

My commission expires: _____

Working Interest Owners

MERIT HUGOTON, L.P.
MERIT MANAGEMENT PARTNERS I, L.P.
MERIT PARTNERS II, L.P.
MERIT ENERGY PARTNERS III, L.P.
MERIT ENERGY PARTNERS D-III, L.P.
MERIT ENERGY PARTNERS E-III, L.P.

By: Merit Management Partners GP, LLC, its General Partner

By_____
Name: Christopher S. Hagge
Title: Vice President,
Merit Management Partners GP, LLC

STATE OF TEXAS)
) SS
COUNTY OF DALLAS)

This instrument was acknowledged before me on this _____ day of _____, 2017, by Christopher S. Hagge, as Vice President of Merit Management Partners GP, LLC, the General Partner of Merit Hugoton, L.P., Merit Management Partners I, L.P., Merit Partners II, L.P., Merit Energy Partners III, L.P., Merit Energy Partners D-III, L.P. and Merit Energy Partners E-III, L.P., all Delaware limited partnerships, on behalf of said company and partnership.

_____
Notary Public

My commission expires: _____

Royalty Owners

DAVID YOUNGER

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

GERALD A. DANLER

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

WILLIAM J. DANLER

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

HAMLIN FAMILY 29, LLC

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

HOLLIS PETTZ JR

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

HOWARD AND SHARON BRAUN

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

KENT A. MADDUX

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

KIRK A. MADDUX

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

LEGACY ROYALITIES LTD. TEXAS LP

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

RONALD L. PETTZ

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

SHARON BRAUN

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

SYLVESTER AND MATILDA DANLER TRUST

By_____
Name: _____
Title: _____

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2017, by _____, as _____ on behalf of _____ _____.

EXHIBIT "1"
UNIT BOUNDARY MAP
HYLBOM MORROW UNIT
Sec 25-T23S-R35W Kearny County, KS
Sec 30-T23S-34W Finney County, KS

Tract No.	Legal Description
Tract 1	Sec. 25: T23S-R35W E/2
Tract 2	Sec. 30: T23S-R34W W/2
Tract 3	Sec. 30: T23S-R34W N/2 NE/4
Tract 4	Sec. 30: T23S-R34W S/2 NE/4

EXHIBIT "2"
TRACT PERCENTAGE PARTICIPATION
HYLBOM MORROW UNIT
Sec 25-T23S-R35W Kearny County, KS
Sec 30-T23S-34W Finney County, KS

Tract	Tract Operator	Legal Description	Tract Participation
Tract 1	Merit Energy Company	Sec 25-T23S-R35W E/2	12.02%
Tract 2	Merit Energy Company	Sec 30-T23S-R34W W/2	57.93%
Tract 3	Merit Energy Company	Sec 30-T23S-R34W N/2 NE/4	14.31%
Tract 4	Merit Energy Company	Sec 30-T23S-R34W S/2 NE/4	15.73%
		Total	**100.00%**

EXHIBIT "3"
CALCULATION OF TRACT PARTICIPATION FACTORS
HYLBOM MORROW UNIT – KEARNY & FINNEY COUNTY, KANSAS

Hylbom Unit
Waterflood Unitization Proposal

Tract No.	Legal Description	PHASE I Variables					PHASE I Allocation					PHASE I Participation
		5.0%	40.0%	5.0%	25.0%	25.0%	% of Subtotal for Each Variable					
		Useable Wellbores	OOIP, mbo	Cumulative Production, mbo	Remaining Primary, mbo	3mo Avg Oil Rate, bopd	Useable Wellbores	OOIP, mbo	Cumulative Production, mbo	Remaining Primary, mbo	Average Oil Rate, bopd	
Tract 1	Sec. 25: T23S-R35W E/2	3	620	23	38	9	33.3%	15.8%	5.4%	9.8%	5.3%	12.02%
Tract 2	Sec. 30: T23S-R34W W/2	3	2,605	294	191	97	33.3%	66.5%	69.1%	48.6%	56.2%	57.93%
Tract 3	Sec. 30: T23S-R34W N/2 NE/4	1	259	37	91	34	11.1%	6.6%	8.7%	23.2%	19.5%	14.31%
Tract 4	Sec. 30: T23S-R34W S/2 NE/4	2	434	71	72	33	22.2%	11.1%	16.8%	18.4%	19.0%	15.73%
		9	3,918	425	393	173	100%	100%	100%	100%	100%	100.00%

EXHIBIT "4"
ROYALTY OWNERS
HYLBOM MORROW UNIT – KEARNY& FINNEY COUNTY, KANSAS

Tract	Owner Name / Entity Name	Legal Description	Net Revenue Interest	Tract Participation	PHASE NRI
Tract 1	Merit Energy Company	Sec 25-T23S-R35W E/2	87.5%	12.0%	10.5148%
Tract 1	Hamlin Family 29, LLC	Sec 25-T23S-R35W E/2	12.5%	12.0%	1.5021%
Tract Total					**12.0170%**
Tract 2	Merit Energy Company	Sec 30-T23S-R34W W/2	87.5%	57.9%	50.6929%
Tract 2	Kent A. Maddux	Sec 30-T23S-R34W W/2	0.02%	57.9%	0.0113%
Tract 2	Kirk A. Maddux	Sec 30-T23S-R34W W/2	0.02%	57.9%	0.0113%
Tract 2	Hollis Pettz Jr	Sec 30-T23S-R34W W/2	3.12%	57.9%	1.8048%
Tract 2	Ronald L Pettz	Sec 30-T23S-R34W W/2	3.12%	57.9%	1.8048%
Tract 2	Sharon Braun	Sec 30-T23S-R34W W/2	3.12%	57.9%	1.8048%
Tract 2	Howard and Sharon Braun	Sec 30-T23S-R34W W/2	1.56%	57.9%	0.9024%
Tract 2	David Younger	Sec 30-T23S-R34W W/2	0.78%	57.9%	0.4512%
Tract 2	Legacy Royalties Ltd. Texas LP	Sec 30-T23S-R34W W/2	0.78%	57.9%	0.4512%
Tract Total					**57.9347%**
Tract 3	Merit Energy Company	Sec 30-T23S-R34W N/2 NE/4	87.50%	14.3%	12.5249%
Tract 3	Sylvester & Matilda Danler Trust	Sec 30-T23S-R34W N/2 NE/4	12.5%	14.3%	1.7893%
Tract Total					**14.3142%**
Tract 4	Merit Energy Company	Sec 30-T23S-R34W S/2 NE/4	87.5%	15.7%	13.7674%
Tract 4	Gerald A. Danler	Sec 30-T23S-R34W S/2 NE/4	6.25%	15.7%	0.9834%
Tract 4	William J. Danler	Sec 30-T23S-R34W S/2 NE/4	6.25%	15.7%	0.9834%
Tract Total					**15.7342%**

EXHIBIT "5"
WORKING INTEREST OWNERS
HYLBOM MORROW UNIT – KEARNY& FINNEY COUNTY, KANSAS

Tract	Owner Name / Entity Name	Legal Description	Working Interest	Tract Participation	PHASE WI
Tract 1	Merit Energy Company	Sec 25-T23S-R35W E/2	100.0%	12.0%	12.0%
Tract 1	Hamlin Family 29, LLC	Sec 25-T23S-R35W E/2	0.0%	12.0%	0.0%
Tract Total					**12.0170%**
Tract 2	Merit Energy Company	Sec 30-T23S-R34W W/2	100.0%	57.9%	57.9%
Tract 2	Kent A. Maddux	Sec 30-T23S-R34W W/2	0.0%	57.9%	0.0%
Tract 2	Kirk A. Maddux	Sec 30-T23S-R34W W/2	0.0%	57.9%	0.0%
Tract 2	Hollis Pettz Jr	Sec 30-T23S-R34W W/2	0.0%	57.9%	0.0%
Tract 2	Ronald L Pettz	Sec 30-T23S-R34W W/2	0.0%	57.9%	0.0%
Tract 2	Sharon Braun	Sec 30-T23S-R34W W/2	0.0%	57.9%	0.0%
Tract 2	Howard and Sharon Braun	Sec 30-T23S-R34W W/2	0.0%	57.9%	0.0%
Tract 2	David Younger	Sec 30-T23S-R34W W/2	0.0%	57.9%	0.0%
Tract 2	Legacy Royalties Ltd. Texas LP	Sec 30-T23S-R34W W/2	0.0%	57.9%	0.0%
Tract Total					**57.9347%**
Tract 3	Merit Energy Company	Sec 30-T23S-R34W N/2 NE/4	100.0%	14.3%	14.3%
Tract 3	Sylvester & Matilda Danler Trust	Sec 30-T23S-R34W N/2 NE/4	0.0%	14.3%	0.0%
Tract Total					**14.3142%**
Tract 4	Merit Energy Company	Sec 30-T23S-R34W S/2 NE/4	100.0%	15.7%	15.7%
Tract 4	Gerald A. Danler	Sec 30-T23S-R34W S/2 NE/4	0.0%	15.7%	0.0%
Tract 4	William J. Danler	Sec 30-T23S-R34W S/2 NE/4	0.0%	15.7%	0.0%
Tract Total					**15.7342%**

EXHIBIT C

To the Application of Merit Energy Company, LLC (#32446) for an order authorizing the unitization and unit operation of the Hylbom Morrow Unit

Joint Operating Agreement

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

JOINT OPERATING AGREEMENT

HYLBOM MORROW UNIT

DATED: Effective as of the "effective date"

OPERATOR: Merit Energy Company, LLC

CONTRACT AREA: E/2 Section 25-T23S-R35W, Kearny County; W/2 & NE/4 Section 30-T23S-R34W, Finney County

COUNTY ~~OR PARISH~~Finney and Kearny OF STATE OF KANSAS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Merit Energy Company, LLC, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to further explore and develop these leases and/or oil and gas interests utilizing enhanced oil recovery methods for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

I. DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and all other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. ~~B.~~ The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A". The term "Contract Area", insofar as it pertains to surface area, shall have the same meaning prescribed to the term "Unit Area" by K.S.A. 55-1305(a), as amended.

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the governmental quarter-section, or part thereof, covered by the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

I. The term "effective date" shall mean the effective date of the Unit Agreement.

J. The term "Enhanced Oil Recovery" or "EOR" means any process involving the injection of water, gas or other fluids, or combinations thereof, to introduce artificial energy into a pool to increase the ultimate recovery of oil and gas therefrom.

K. The term "KCC" shall mean the State Corporation Commission of the State of Kansas.

L. The term "majority in interest" shall mean any party or parties holding, in aggregate, more than 50% of the ownership interests shown on Exhibit "A."

M. The term "pool" shall have the meaning prescribed by K.S.A. 55-1302(b), as amended.

N. The term "Unit Agreement" shall mean that certain agreement title "Unit Agreement-Hylbom Morrow Unit" dated the __ day of _____, 2017, but effective as of the Effective Date defined in Article 15.1 therein.

O. The term "Unitized Formation"

P. The term "unit operations" shall mean the operations described in Article VI.A.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

II. EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

A. Exhibit "A", shall include the following information:

(1) Identification of lands subject to this agreement,

(2) Restrictions, if any, as to depths, formations, or substances,

(3) Percentages or fractional interests of parties to this agreement,

(4) Oil and gas leases and/or oil and gas interests subject to this agreement,

(5) Addresses of parties for notice purposes.

B. Exhibit "B", Form of Lease.

C. Exhibit "C", Accounting Procedure.

D. Exhibit "D", Notice of Operating Agreement and Financing Statement.

E. Exhibit "E", Development Plan.

If any provision of any exhibit, except Exhibits "E" ~~and "G"~~, is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail. All terms and words used in the above-described Exhibits, and any supporting schedules, shall have the same meanings as set forth or otherwise prescribed by this Agreement.

III. INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A" ~~except~~ that title to all equipment and materials (including existing welbores), on any leasehold or oil and gas interest, all or a portion of which is included int he Contract Area and utilized pursuant to unit operations, shall remain 100% vested with the party or parties contributing such leasehold oil and gas interest during the term of this Agreement. In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of 12% which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

IV. TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. Title examination shall mean an examination of title conducted by the staff of Operator, including its landmen and staff attorneys, and/or Operator contracted third-party landment and outside attorneys sufficient to clear title for drilling purposes to the reasonable satisfaction of Operator. The examination~~opinion~~ will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. ~~Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto.~~ The cost incurred by Operator in this title program shall be borne as follows:

~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid to landmen, whether third-party contracted or employed by Operator, and outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions, division order title opinions, and costs associated with any title opinion already obtained by Operator covering all or a portion of the Contract Area) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing, ~~or~~ pooling, or unitization orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled or used in connection with unit operations on the Contract Area until after (1) the title to the drillsite or lease and/or oil and gas interest ~~drilling unit~~ has been examined as above provided, and (2)(i) the title has been approved by the examining attorney, ~~r~~ (ii) title has been accepted by all of the parties who are to participate in the drilling of the well, or (iii) title has been accepted to the reasonable satisfaction of Operator.

B. Loss of Title:

1. ~~Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests; and,~~

(a) ~~The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

(b) ~~There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;~~

(c) ~~If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;~~

(d) ~~Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;~~

(e) ~~Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,~~

(f) ~~No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith~~

2. ~~Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

(a) ~~Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;~~

(b) ~~Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interest; and,~~

(c) ~~Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~

3. ~~Other Losses:~~All losses incurred~~, other than those set forth in Articles IV.B.1. and IV.B.2. above,~~ shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

V. OPERATOR

A. Designation and Responsibilities of Operator:

Merit Energy Company, LLC shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, in connection with Operator's activities, acts and/or omissions related to this Agreement, except such as may result from ~~gross negligence or~~ willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, ~~no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator~~it shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of ~~two (2) or more~~ Non-Operators owning a majority interest

based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until ~~9~~7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator, unless Operator owns no interest in the Contract Area, in which case its rights and obligations hereunder shall terminate (other than liabilities accrued prior to such termination). A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of ~~two (2) or more~~ parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of ~~two (2) or more~~ parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

Contracts for wells drilled, reworked, deepened, plugged back, or converted for injection or some other purposes on the Contract Area shall be bid~~drilled~~ on a competitive contract basis consistent with~~at the usual rates~~ prevailing practices in the area. If it so desires, Operator may employ its own tools and equipment in the drilling, reworking, deepening, plugging back or converting of wells, but its charges therefor shall not exceed the prevailing rates in the area~~ and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced~~, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

VI. DRILLING AND DEVELOPMENT

A. Initial Unit Operations:

~~On or before , Operator shall commence the drilling of a well for oil and gas at the following location:~~

~~and shall thereafter continue the drilling of the well with due diligence to unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.~~

~~Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.~~

~~If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.~~

Operator shall commence operations to implement the Development Plan described on Exhibit "E" within 90 days after the effective date. All parties hereby acknowledge and agree that Operator shall have, in its sole discretion, the authority to implement all or a portion of the Development Plan as hereinafter provided. If Operator determines that the production of oil and gas resulting from ongoing EOR operations is inadequate to economically continue implementation of the Development Plan, then Operator may propose to abandon the Development Plan at which point the provisions of Article VI.E.1 shall apply. If Operator determines that the production of oil and gas resulting from further implementation of the Development Plan is no longer necessary or advisable, then the Operator shall not be required to continue implementation of the Development Plan. Operator may revise, modify, amend, replace, in whole or in part, or otherwise change the Development Plan at any time while this Agreement is in effect, when Operator deems, in its sole discretion, that such changes are necessary or advisable to maximize the efficient and economic recovery of oil and gas from the unitized formation, provided such changes are consistent with the purposes and objective of the EOR operations contemplated hereby. Any such revised, modified, amended, replaced or otherwise changed Development Plan shall thereafter be treated as if it were the original Development Plan adopted pursuant to this Agreement and implemented pursuant to the provisions hereof.

See Article XV.G for provisions governing consent to Initial Unit Operation as described herein this Article VI.A.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than as~~the well~~ provided for in Article VI.A., or to rework, recomplete, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties~~ and not then producing in paying quantities~~, the party desiring to drill, rework, recomplete, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the party wishing to do the work whether they

elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to drill, rework, recomplete, plug back or ~~drill~~ deepen~~r~~ may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. ~~or VII.D.1. (Option No. 2)~~ elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall ~~either~~: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, and if Operator declines, ~~or~~ (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement. Each Consenting Party shall carry its proportionate part of Non-Consenting Parties' interests in the proposed subsequent operation. Notwithstanding the foregoing, the proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

~~If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.~~

If a majority of the Consenting Parties agree, some or all of the Non-Consenting Parties' interest in the proposed subsequent operation may be offered to one or more third parties for the sole purpose of participating in the proposed operation up and until the Non-Consenting Parties' interests are recovered pursuant to this Article VI.B. Any such third party shall be required to become a party to this Agreement, and shall be treated as a Consenting Party while a participant in the subsequent operation.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions set forth in the initial paragraph of this Article VI.B.2 ~~they have elected to bear same under the same terms of the preceding paragraph~~. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, recompleted, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, recompleting, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100%of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

(b) 300%of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, ~~after deducting any cash contributions received under Article VIII.C.~~, and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking, recopmleting or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking, recopmleting or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking, recompleting or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

In the case of any reworking, recompleting, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, recompleting, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, recompleting, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of a~~ll parties~~ majority in interest, no wells shall be completed, plugged back or deepened into, or produced from the unitized formation beneath~~a source of supply from which a well located elsewhere on~~ the Contract Area ~~is producing~~, unless drilled pursuant to Article VI.A~~such well conforms to the then existing well spacing pattern for such source of supply~~.

The provisions of this Article shall have no application whatsoever to the operations conducted pursuant to~~drilling of the initial well described in~~ Article VI.A. except ~~(a) as to Article VII.D.1. (Option No. 2), if selected, or (b)~~ as to the reworking, recompleting, deepening and plugging back of a~~such initial~~ well into a pool other than the unitized formation~~after if has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities~~.

To the extent Operator approves or otherwise consents to any well drilled, reworked, recompleted, plugged back or deepened pursuant to the subsequent operations provisions of this Article VI.B., such well shall be considered part of unit operations. If Operator does not authorize or otherwise consent, such well shall not be considered part of unit operations during the time period the Consenting Parties receive Operator's share of production or the proceeds therefrom pursuant to Article VI.B.

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, recompleting, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to

the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing the treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. ~~Any party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.~~

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party and shall account to such party for the actual net proceeds received for such production, if sold, or the current market price if purchased by Operator~~at the best price obtainable in the area for such production~~. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

~~In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.~~

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator~~, other than that specified above,~~ shall be charged to the Non-Operator that requests the Information. Notwithstanding anything in this agreement to the contrary, Operator shall have no obligation to Non-Operator to furnish, make available or otherwise share any trade secrets or any information Operator deems to be confidential or proprietary. Further, and notwithstanding anything to the contrary, any Non-Operator in default under Article VII.B shall have no rights under this Article VI.D.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of a majority in interest~~all parties~~. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of a majority in interest~~ll parties~~. Should Operator, after diligent effort, be unable to contact any party, or should any party

fail to reply within 30 days after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. If a majority in interest~~ll parties~~ consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, a majority in interest~~ll parties~~ do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.

VII. EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted, the proceeds from the sale thereof, and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C" and the costs of collection (including reasonable attorneys' fees). To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest and the costs of collection (including reasonable attorneys' fees), has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Operator shall at all times have the right to offset any party's respective proportionate share of expenses incurred in the development and operation of the Contract Area pursuant to this Agreement against the value of such party's respective share of oil and gas production from the Contract Area, including the proceeds from the sale thereof. Operator may exercise this right without notice and may do so in the ordinary course of operations and such offset will be reflected on monthly billings submitted pursuant to Exhibit "C."

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis

provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of a majority in interest~~ll parties,~~ no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.A or VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

o Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

~~o Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.~~

2. Rework or Plug Back: Without the consent of a majority in interest~~ll parties~~, no well shall be reworked, recompleted or plugged back except a well reworked, recompleted or plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking, recompleting or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of a majority in interest~~ll parties~~, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of 50,000 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement, or pursuant to EOR operatoins conducted pursuant to Artcle VI.A; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. ~~If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of but less than the amount first set forth above in this paragraph.~~

E. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2. **Operator may, in its sole discretion and without prior notice, pay the rental, shut-in well payment or minimum royalty payment on or before the date it becomes due in order to continue the lease in force, and such payment shall become an obligation of the party or parties who contributed the lease to this Agreement along with any costs associated therewith and Operator will charge the account of such party(ies) accordingly.**

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3. In the case of a well returned to production, Operator shall notify Non-Operator of the date of the first sale after sales commence.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall

inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workermen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties ~~as outlined in Exhibit "D", attached to and made a part hereof~~. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workermen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Operator elects to carry automobile public liability insurance ~~is specified in said Exhibit "D"~~, or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless a majority in interest~~ll parties~~ consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal and replacement leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any replacement~~newal~~ lease taken before the expiration of its predecessor lease, or renewal lease taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal or replacement lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. ~~Acreage or Cash Contributions:~~

~~While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area. If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.~~

D. Maintenance of Uniform Interests:

~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:~~

1. ~~the entire interest of the party in all leases and equipment and production; or~~

2. ~~an equal undivided interest in all leases and equipment and production in the Contract Area.~~

Every ~~such~~ sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

F. Preferential Right to Purchase:

Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock. This preferential right to purchase shall remain in effect for 20 years after the death of the individual signing this agreement on behalf of Operator.

IX. INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as amended ("Code")~~54~~, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give

further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the ~~Internal Revenue~~ Code ~~of 1954~~, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

X. CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed 50,000 and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

XI. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspending during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned. The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

XII. NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given by email or in writing by mail ~~or telegram~~, postage or charges prepaid, ~~or by telex or telecopier~~ and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, or if sent by email, the date the email was sent, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when sent, if by email, or when deposited in the mail ~~or with the telegraph company~~, with postage or charges prepaid~~, or sent by telex or telecopier~~. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

XIII. TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

~~o Option~~ No. 1: ~~So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal, or otherwise.~~

o Option No. 2: ~~In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, t~~This agreement shall continue in force so long as unit operations are conducted pursuant to Article VI.A or any ~~such~~ well or wells completed in the Unitized Formation produce, or are capable of production, and for an additional period of 180 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back, recompletion or reworking operations are commenced within 180 days from the date of abandonment of said well. It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

XIV. COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of Kansas shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy, the Environmental Protection Agency, the KCC or the Kansas Department of Health and Environment, or the predecessors or successors of such agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

XV. OTHER PROVISIONS

See below

A. Default. Notwithstanding anything to the contrary contained in Article VII.B., in the course of conducting unit operations, including the drilling, reworking, recompleting, deepening, testing, completing or plugging back operations in any well on the Contract Area, if any Non-Operator fails or is unable to pay it proportionate share of the costs for such operation, Operator shall have the right to enforce the lien as provided in Article VII.B. herein, or Operator shall have the right, to be exercised before or after completion of such operation and upon thirty (30) days prior written notice of such intention is given to the defaulting party, to treat such defaulting party as having made a non-consent election and being subject to the non-consent provisions provided in Article VI.B.3., effective as of when such party defaulted in payment of its bills, unless the defaulting party cures in full within said thirty (30) day period. If Operator elects to treat the defaulting party as having made a non-consent election, Operator may not enforce the lien as provided in Article VII.B. herein.

While any Non-Operator is in default, it shall have no further access to the Contract Area or information obtained in connection with operations hereunder and shall not be entitled to vote on any matter hereunder. As to any proposed operation in which it otherwise would have the right to participate, such party shall have the right to be a Consenting Party herein on if it cures the default in full before the operation is commenced; otherwise, it automatically shall be deemed a Non-Consenting party to that operation.

B. Notice of Operating Agreement and Financing Statement. Operator is authorized to file a Memorandum of Operating Agreement and Financing Statement to secure the lien and security interest provided by Article VII.B. herein. The Memorandum of Operating Agreement and Financing Statement shall promptly be filed of record to perfect the lien and security interest when this Agreement becomes effective. Operator shall have the primary responsibility for recording the Memorandum of Operating Agreement and Financing Statement; however, any Non-Operator may record the Memorandum of Operating Agreement and Financing Statement. A form of Memorandum of Operating Agreement and Financing Statement is attached hereto as Exhibit "F."

C. Execution. This Agreement shall be binding upon a party when this Agreement or a counterpart thereof has been executed by Operator and such party, notwithstanding that this Agreement is not then or thereafter executed by all of the other parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area, or when a party is deemed to be a party to this Agreement by order of the KCC. Operator may, however, by written notice to all parties who have become bound by this Agreement as aforesaid, given at any time prior to the commencement of unit operations, terminate this Agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of unit operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest.

D. Severability. For the purposes of assuming or rejecting this Agreement as an executory contract pursuant to federal bankruptcy laws, this Agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to this Agreement to comply with all of its financial obligations provided herein shall be a material default.

E. Waiver of Notice. Merit Energy Company, LLC, operator hereunder, and Merit Hugoton L.P., Merit Management Partners I, L.P., Merit Partners II, L.P., Merit Energy Partners III, L.P., Merit Energy Partners D-III, L.P., and Merit Energy Partners E-III, L.P. (collectively, "Merit Lessees") Non-Operators hereunder, hereby agree to waive any and all requirements that one provide written notice to the other as set forth in the Agreement, and hereby consent to accept whatever form of notice is mutually agreeable to the two parties.

F. **Construction.** When the phrase "drilling of a well", "drilling of the well", "drilling wells" or other similar language is used in this Agreement, such language shall also be treated as describing any existing well located on the Contract Area and presently completed in the unitized formation, whether for production or injection purposes, or proposed to be drilled, deepened, recompleted or plugged back in or to the unitized formation, and which will be used in Enhanced Oil Recovery operations pursuant to unit operations. Any reference to "drilling operations" shall be a reference to Enhanced Oil Recovery operations implemented pursuant to the unit operations.

Notwithstanding any other provision in this Agreement, the costs and liabilities of unit operations, and production from the unitized formation, shall be allocated or reallocated and borne and paid by and to the Parties hereto according to Exhibit "A" and the terms and provisions of the Unit Agreement. Wherever the phrase "on an acreage basis" or language of similar import occurs in this Agreement with respect to the allocation or reallocation of costs and liabilities of unit operations, such phrase shall be deleted and the phrase "'on a percentage basis in accordance with Exhibit "A" and the Unit Agreement"' shall be substituted therefor. This provision shall also govern the Parties' respective ownership of equipment and material acquired pursuant to unit operations.

Unless this Agreement is expressly limited to the unitized formation, it shall apply to all depths beneath the Contract Area.

G. Consent to Initial Unit Operations. Within 15 days after the effective date of this Agreement, all parties electing to participate in the cost and expense of the Initial Unit Operations described in Article VI.A. shall provide written notice to Operator of its election to participate. Should one or more parties elect not to participate in Initial Unit Operations, then the provisions of Article VI.B. shall apply to Initial Unit Operations, including the allocation of costs and expenses incurred pursuant thereto, and the ownership interest in the wells and production resulting therefrom. Any party who fails to timely provide notice of its intent to participate shall be treated as electing not to consent to Initial Unit Operations.

XVI. MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the oil and gas leases and/or oil and gas interests included within the Contract Area.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of the effective date.

~~, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in computerized form by ContractRoom. No changes, alterations, or modifications, other than those in Articles , have been made to the form.~~

OPERATOR

MERIT ENERGY COMPANY, LLC

By:
Christopher S. Hagge, Vice President

NON-OPERATORS

MERIT HUGOTON, L.P.
MERIT MANAGEMENT PARTNERS I, L.P.
MERIT PARTNERS II, L.P.
MERIT ENERGY PARTNERS III, L.P.
MERIT ENERGY PARTNERS D-III, L.P.
MERIT ENERGY PARTNERS E-III, L.P.

By: Merit Management Partners GP, LLC, its General Partner

By:
Christopher S. Hagge,
Vice President of Merit Management Partners GP, LLC

Exhibit A
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

EXHIBIT "A-1"
LANDS SUBJECT TO AGREEMENT
HYLBOM MORROW UNIT
E/2 Sec 25-T23S-R35W, Kearny County, KS
W/2 & NE/4 Sec 30-T23S-R34W, Finney County, KS

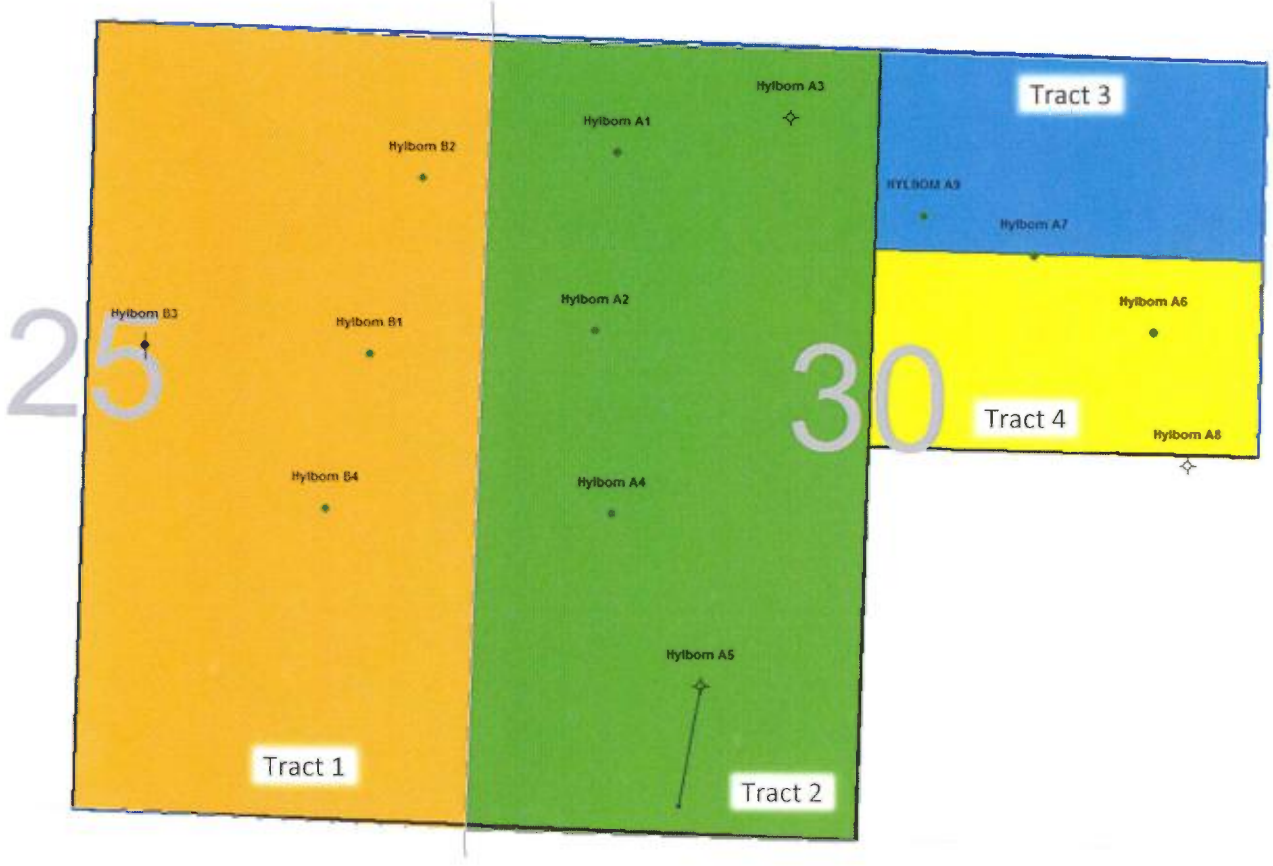


Exhibit A
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

Tract No.	Legal Description	Operator	Associated Wells	Acreage, ac.
Tract 1	Sec. 25: T23S-R35W E/2	MEC	Hylbom B1	320
Tract 1			Hylbom B2	
Tract 1			Hylbom B3	
Tract 1			Hylbom B4	
Tract 2	Sec. 30: T23S-R34W W/2	MEC	Hylbom A1	320
Tract 2			Hylbom A2	
Tract 2			Hylbom A4	
Tract 3	Sec. 30: T23S-R34W N/2 NE/4	MEC	Hylbom A9	80
Tract 4	Sec. 30: T23S-R34W S/2 NE/4	MEC	Hylbom A6	80
Tract 4			Hylbom A7	

EXHIBIT "A-2"
RESTRICTIONS TO DEPTHS, FORMATIONS AND SUBSTANCES
HYLBOM MORROW UNIT

The lands, oil and gas leases and oil and gas interests subject to this Agreement, as unitized, shall be limited INSOFAR AND ONLY INSOFAR as they pertain to Oil and Gas produced from the stratigraphic equivalent of the Morrow formation encountered in the subsurface of the Contract Area between the base of the Atoka 4,584' MD (-1,591' TVDSS) and the top of the St. Louis 4,837' MD (-1,844' TVDSS) as shown on the well log for the Hylbom A-2 well (API No. 15-093-21877) located in the SE NE NE Section 25-T23S-R35W, Kearny County, Kansas.

Exhibit A
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

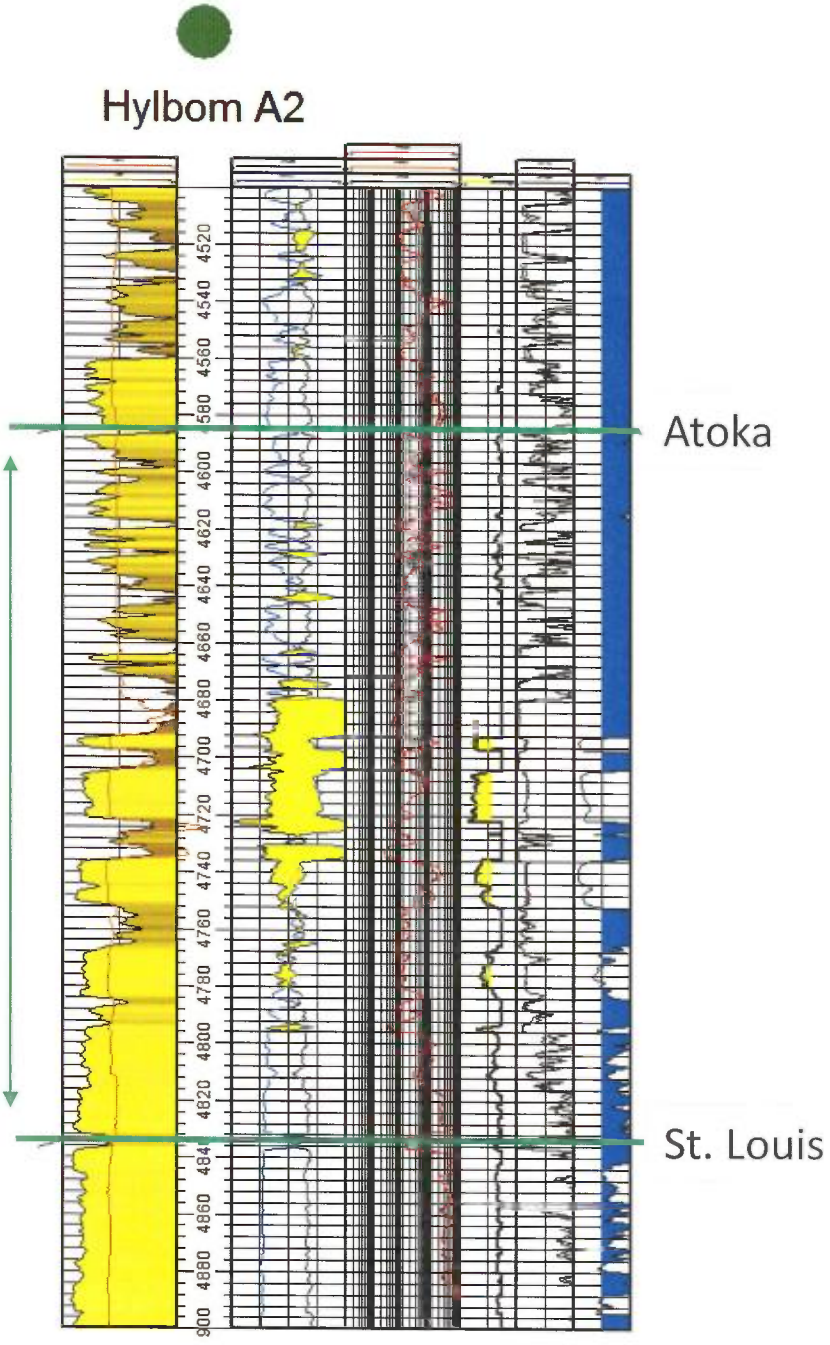


Exhibit A
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

EXHIBIT "A-3"
PERCENTAGE INTERESTS OF PARTIES
HYLBOM MORROW UNIT

	Sum of PHASE I WI	Sum of PHASE II WI
Merit Energy Company	100.0000%	100.0000%
David Younger	0.0000%	0.0000%
Gerald A. Danler	0.0000%	0.0000%
Hamlin Family 29, LLC	0.0000%	0.0000%
Hollis Pettz Jr	0.0000%	0.0000%
Howard and Sharon Braun	0.0000%	0.0000%
Kent A. Maddux	0.0000%	0.0000%
Kirk A. Maddux	0.0000%	0.0000%
Legacy Royalties Ltd. Texas LP	0.0000%	0.0000%
Ronald L Pettz	0.0000%	0.0000%
Sharon Braun	0.0000%	0.0000%
Sylvester & Matilda Danler Trust	0.0000%	0.0000%
William J. Danler	0.0000%	0.0000%
Grand Total	100.0000%	100.0000%

Oil and gas produced pursuant to unit operations will be allocated in accordance with the Unit Agreement. The costs and liabilities of unit operations shall be borne and paid, and all equipment and material acquired in such operations (unless otherwise specifically provided) on the Contract shall be owned by the Parties to this Agreement in the same ratio as production is allocated to Working Interest Owners under the Unit Agreement.

Exhibit A
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

EXHIBIT "A-4"
OIL AND GAS LEASES AND OIL AND GAS INTERESTS SUBJECT TO THIS AGREEMENT
HYLBOM MORROW UNIT

TRACT 1: E/2 Sec. 25-T23S-R35W
LESSOR: TOR HYLBOM AND THE EXCHANGE NATIONAL BANK, OF COLORADO SPRINGS, COLORADO, TRUSTEES UNDER THE LAST WILL AND TESTAMENT OF CLARENCE CLARK HAMLIN
INTEREST: 8/8
LESSEE: STANOLIND OIL AND GAS COMPANY
DATE: 5/27/1946
RECORDED: BOOK 14, PAGE 456
MERIT FILE #: 1253-66375 (61538853)

TRACT 2: W/2 Sec. 30-T23S-R34W
LESSOR: THE NOLAN MOTOR COMPANY, A KANSAS CORPORATION
INTEREST: 4/8
LESSEE: JOE E. DENHAM
DATE: 10/19/1943
RECORDED: BOOK 13, PAGE 28
MERIT FILE #: 1253-62117 (61500393)

TRACT 2: W/2 Sec. 30-T23S-R34W
LESSOR: TOR HYLBOM AND THE EXCHANGE NATIONAL BANK, OF COLORADO SPRINGS, COLORADO, TRUSTEES UNDER THE LAST WILL AND TESTAMENT OF CLARENCE CLARK HAMLIN
INTEREST: 4/8
LESSEE: JOE E. DENHAM
DATE: 10/04/1943
RECORDED: BOOK 13, PAGE 54
MERIT FILE #: 1253-62118 (61500393)

TRACT 3: N/2 NE/4 Sec. 30-T23S-R34W
LESSOR: HERBERT MEYER AND WILMA L. MEYER, HIS WIFE
INTEREST: 8/8
LESSEE: J. E. O'DONNELL
DATE: 9/11/1941
RECORDED: BOOK 11, PAGE 362
MERIT FILE #: 629-29846

TRACT 4: S/2 NE/4 Sec. 30-T23S-R34W
LESSOR: HERBERT MEYER AND WILMA L. MEYER, HIS WIFE
INTEREST: 8/8
LESSEE: J. E. O'DONNELL
DATE: 9/11/1941
RECORDED: BOOK 11, PAGE 362
MERIT FILE #: 629-29846

Exhibit A
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

EXHIBIT "A-5"
ADDRESSES OF PARTIES FOR NOTICE PURPOSES
HYLBOM MORROW UNIT

Merit Energy Company, LLC	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Hugoton, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Management Partners I, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Partners II, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Energy Partners III, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Energy Partners D-III, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Energy Partners E-III, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240

See Article XV.E regarding notice requirements among Operator and Merit Lessees.

Exhibit B
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

FORM OF LEASE

FORM 88 (PRODUCER'S SPECIAL) (PAID-UP)

63U (Rev. 1993)

OIL AND GAS LEASE

AGREEMENT, Made and entered into the_____day of _____by and between _____ _____whose mailing address is _____hereinafter called Lessor (whether one or more), and _____ hereinafter called Lessee:

Lessor, in consideration of _____ Dollars ($_____) in hand paid, the receipt of which is hereby acknowledged and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring by geophysical and other means, prospecting drilling, mining and operating for and producing oil, liquid hydrocarbons, all gases, and their respective constituent products, injecting gas, water, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, power stations, telephone lines, and other structures and things thereon to produce, save, take care of treat, manufacture, process, store and transport said oil, liquid hydrocarbons, gases and their respective constituent products and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land, together with any reversionary rights and after-acquired interest, therein situated in County of_____ State of _____ described as follows to-wit:

In Section _____ Township _____ Range _____and containing acres, more or less, and all accretions thereto.

1. Subject to the provisions herein contained, this lease shall remain in force for a term of _____years from _____ _____ (called "primary term") and as long thereafter as oil, liquid hydrocarbons, gas or other respective constituent products, or any of them, is produced from said land or land pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

2. In consideration of the premises the said lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor for gas, (including casinghead gas) of whatsoever nature or kind produced and sold, or used off the premises, or used in the manufacture of any products therefrom, one-eighth (1/8), at the market price at the well, (but, as to gas sold by Lessee, in no event more than one-eighth (1/8) of the net proceeds received by Lessee from such sales, such net proceeds to be less a proportionate part of the production, severance, or other excise taxes and the cost incurred by Lessee in delivering, treating for the removal of nitrogen, helium or other impurities in the gas, processing, compressing, or otherwise making any such gas merchantable) for the gas sold, used off the premises, or in the manufacture of products therefrom, said payments to be made monthly.

3. This lease may be maintained during the primary term hereof without further payment or drilling operations. If at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled or unitized therewith but Lessee is then engaged in drilling, reworking operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled or unitized therewith; and operations shall be considered to be continuously prosecuted if not more than one hundred and twenty (120) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on the leased premises or on acreage pooled or unitized therewith, the production should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or reworking operations within one hundred and twenty (120) days from the date of cessation of production or from the date of completion of a dry hole. If oil or gas shall be discovered and produced as a result of such operations, this lease shall continue in full force and effect so long as oil or gas is produced from the leased premises or on acreage pooled or unitized therewith.

4. If after the primary term one or more wells on the lease premises or lands pooled or unitized therewith are capable of producing oil or gas or other substances covered hereby, but such well or wells are either shut in or production therefrom is not being sold by Lessee,

such well or wells shall nevertheless be deemed to be producing for the purpose of maintaining the lease. If for a period of ninety (90) consecutive days such well or wells are shut in or production therefrom is not sold by Lessee, the Lessee shall pay an aggregate shut-in royalty of One Dollar ($1.00) per acre then covered by this lease, such payment to be made to Lessor on or before the anniversary date of this lease next ensuing after the expiration of the said ninety (90) day period and thereafter on or before each anniversary date of this lease while the well or wells are shut in or production therefrom is not being sold by Lessee; provided that if this lease is in its primary term or otherwise being maintained by operations, or if production is being sold by Lessee from another well on the leased premises or lands pooled or unitized therewith, no shut-in royalty shall be due until the end of the next following anniversary date of this lease that cessation of such operations or production occurs, as the case may be. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

5. If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in royalties) herein provided for shall be paid the said lessor only in the proportion which lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for lessee's operation thereon, except water from the wells of lessor.

7. When requested by lessor, lessee shall bury lessee's pipe lines below plow depth. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of lessor. Lessee shall pay for damages caused by lessee's operations to growing crops on said land. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

8. If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

9. If the leased premises are now or shall hereafter be owned in severalty or in separate tracts, the premises nevertheless shall be developed and operated as one lease, and all royalties accruing hereunder shall be treated as an entirety and shall be divided among and paid to such separate owners in the proportion that the acreage owned by each separate owner bears to the entire leased acreage. There shall be no obligation on the part of the lessee to offset wells on separate tracts into which the land covered by this lease may be hereafter divided by sale, devise, descent or otherwise or to furnish separate measuring or receiving tanks. It is hereby agreed that in the event this lease shall be assigned as to a part or as to parts of the above described land and the holder or owner of any such part or parts shall make default in the payment of the proportionate part of the rent due from him or them, such default shall not operate to defeat or affect this lease insofar as It covers a part of said land upon which the lessee or any assignee hereof shall make due payment of said rentals.

10. Lessee may at any time execute and deliver to lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

11. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas or other substance covered hereby. When drilling, reworking, production or other operations or obligations under this lease are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightening, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or inaction, or by inability to obtain a satisfactory market for production, or failure of purchasers or carriers to take or transport such production, or by any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within control of Lessee, this lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provision or implied covenants of this lease when drilling, production, or other operations are so prevented or delayed.

12. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor, by payment any mortgages, taxes or other liens on the above described lands, in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof, and reimburse itself such payments from the royalties payable to lessor hereunder. The undersigned lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, in so far as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

Exhibit B
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

13. Lessee, at its option, is hereby given the right and power to pool, unitize or combine the acreage covered by this lease or any portion thereof, with other land, lease or leases in the immediate vicinity thereof, together with the right to modify or terminate any pool or unit so formed, when in lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said lease premises so as to promote the conservation of oil, gas or other minerals in and under and that may be produced from said premises, such pooling or unitization to be of tracts contiguous to one another and to be into a unit or units not exceeding 40 acres each in the event of a vertical oil well, or into a unit or units not exceeding 640 acres each in the event of a gas well or horizontal oil well. Lessee shall execute in writing and record in the conveyance records of the county in which the land herein leased is situated an instrument identifying and describing the pooled or unitized acreage, and shall update such records if and when the pool or unit is modified. The entire acreage so pooled or unitized into a tract or unit shall be treated, for all purposes except the payment of royalties on production from the pooled unit, as if it were included in this lease. If production is found on the pooled or unitized acreage, it shall be treated as if production is had from this lease, whether the well or wells be located on the premises covered by this lease or not. In lieu of the royalties elsewhere herein specified, lessor shall receive on production from a unit so pooled only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein on an acreage basis bears to the total acreage so pooled or unitized in the particular unit involved.

14. This lease may be signed in any number or numbers of counterparts and shall be effective as to each Lessor on execution hereof as to his or her interest and shall be binding on those signing, notwithstanding some of the Lessors above named who may not have joined in the execution hereof. The word "Lessor" as used in this lease shall mean the party or parties who execute this lease as Lessor, although not named above.

15. Lessee shall have the exclusive right to explore the land herein described by geological, geophysical or other methods, whether similar to those herein specified or not and whether now known or not, including the drilling of holes, use of torsion balance, seismograph explosions, magnetometer, or other geophysical or geological instruments, tests or procedures, for the purpose of securing geological and geophysical information. All information obtained by Lessee as a result of such activity shall be the exclusive property of Lessee, and Lessee may disseminate or sell such information without Lessor's consent. Lessor and Lessee herein agree that a portion of the consideration paid herein is for advance payment of usual and customary damages associated with seismograph operations (ie: tire tracks in the wheat, pasture or field, road use, etc.) If any extraordinary damages may occur, Lessor or its tenant (if Lessor has a tenant) will be compensated accordingly, or at Lessee's discretion, Lessee may elect to repair the damages in lieu of compensation.

IN WITNESS WHEREOF, the undersigned execute this instrument as of the day and year first above written.

_____ _____

ACKNOWLEDGMENT

Exhibit " C "
ACCOUNTING PROCEDURE
JOINT OPERATIONS

Attached to and made part of the Joint Operating Agreement, Hylbom Morrow Unit, Operator: Merit Energy Company, LLC.

I. GENERAL PROVISIONS

IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT ALL THE COMPETING "ALTERNATIVE" PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.

IN THE EVENT THAT ANY "OPTIONAL" PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE PARTIES TO THE AGREEMENT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION, SUCH PROVISION SHALL NOT FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT OF THE PARTIES IN SUCH EVENT.

1. DEFINITIONS

All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:

"Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.

"Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting Procedure is attached.

"Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

"Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest Railway Receiving Point to the property.

"Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

"Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable field personnel.

"First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may include, but are not limited to:

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations
- Responsibility for day-to-day direct oversight of construction operations
- Coordination of job priorities and approval of work procedures
- Responsibility for optimal resource utilization (equipment, Materials, personnel)
- Responsibility for meeting production and field operating expense targets
- Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental part of the supervisor's operating responsibilities
- Responsibility for all emergency responses with field staff
- Responsibility for implementing safety and environmental practices
- Responsibility for field adherence to company policy
- Responsibility for employment decisions and performance appraisals for field personnel
- Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group or team leaders.

"Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.

"Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection, maintenance, repair, abandonment, and restoration of the Joint Property.

"Joint Property" means the real and personal property subject to the Agreement.

"Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted, promulgated or issued.

"Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.

"Non-Operators" means the Parties to the Agreement other than the Operator.

"Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of offshore operations, all of which are located offshore.

"Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.

"On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.

"Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.

"Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as "Party."

"Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees, or is otherwise obligated, to pay and bear.

"Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of the costs and risks of conducting an operation under the Agreement.

"Personal Expenses" means reimbursed costs for travel and temporary living expenses.

"Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual railhead may not exist.

"Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication, scheduling and dispatching center; and other associated functions serving the Joint Property.

"Supply Store" means a recognized source or common stock point for a given Material item.

"Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-Operator, Non-Operator Affiliates, and/or third parties.

2. STATEMENTS AND BILLINGS

The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications. Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.

The Operator may make available to Non-Operators any statements and bills required under Section I.2 and/or Section I.3.A (*Advances and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written notice to the Operator.

3. ADVANCES AND PAYMENTS BY THE PARTIES

A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.

B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the Operator at the time payment is made, to the extent such reduction is caused by:

(1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working interest or Participating Interest, as applicable; or
(2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved or is not otherwise obligated to pay under the Agreement; or
(3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty (30) day period following the Operator's receipt of such written notice; or
(4) charges outside the adjustment period, as provided in Section I.4 (*Adjustments*).

4. ADJUSTMENTS

A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).

B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section I.4.B, are limited to the twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month period are limited to adjustments resulting from the following:

(1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*), or
(2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the Operator relating to another property, or
(3) a government/regulatory audit, or
(4) a working interest ownership or Participating Interest adjustment.

5. EXPENDITURE AUDITS

A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Section I.4 (*Adjustments*). Any Party that is subject to payout accounting under the Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of the Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of

those Non-Operators approving such audit.

The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specific detailed written exception as required in Section I.4.A (*Adjustments*) above. All claims shall be supported with sufficient documentation.

A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section I.5.B or I.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations, provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section I.5.B or I.5.C.

B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the Parties*).

C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section I.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the Parties*).

D. If any Party fails to meet the deadlines in Sections I.5.B or I.5.C or if any audit issues are outstanding fifteen (15) months after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution meeting, as set forth in this Section I.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60) days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

~~*E.* ☐ *(Optional Provision – Forfeiture Penalties)*~~

~~*If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section I.5.B or I.5.C, any unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made, without interest, to the Joint Account.*~~

~~6. APPROVAL BY PARTIES~~

~~A. GENERAL MATTERS~~

~~Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the~~

~~Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.~~

~~This Section I.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for charges from that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are covered by Section I.6.B.~~

~~B. AMENDMENTS~~

~~If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by an affirmative vote of _____ (_____) or more Parties, one of which is the Operator, having a combined working interest of at least _____ percent (_____%), which approval shall be binding on all Parties, provided, however, approval of at least one (1) Non-Operator shall be required.~~

C. AFFILIATES

For the purpose of administering the voting procedures of Sections I.6.A and I.6.B, if Parties to this Agreement are Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating Interest of such Affiliates.

For the purposes of administering the voting procedures in Section I.6.A, if a Non-Operator is an Affiliate of the Operator, votes under Section I.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's Affiliate.

II. DIRECT CHARGES

The Operator shall charge the Joint Account with the following items:

1. RENTALS AND ROYALTIES

Lease rentals and royalties paid by the Operator, on behalf of all Parties, for the Joint Operations.

2. LABOR

A. Salaries and wages, including incentive compensation programs as set forth in COPAS MFI-37 ("Chargeability of Incentive Compensation Programs"), for:

(1) Operator's field employees directly employed On-site in the conduct of Joint Operations,

(2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by Operator*) or are not a function covered under Section III (*Overhead*),

(3) Operator's employees providing First Level Supervision,

(4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*),

(5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*).

Charges for the Operator's employees identified in Section II.2.A may be made based on the employee's actual salaries and wages, or in lieu thereof, a day rate representing the Operator's average salaries and wages of the employee's specific job category.

Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties pursuant to Section I.6.A (*General Matters*).

B. Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance payments or other termination allowances. Such costs under this Section II.2.B may be charged on a "when and as-paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Section II.2.A. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to costs chargeable to the Joint Account under Sections II.2.A and B.

D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the expenses are incurred in connection with directly chargeable activities.

E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are available.

G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most recently recommended by COPAS.

H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose salaries and wages are chargeable under Section II.2.A.

3. MATERIAL

Material purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section IV (Material *Purchases, Transfers, and Dispositions*). Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

4. TRANSPORTATION

A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.

B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material from the Joint Property to the Operator's warehouse or other storage point shall be paid for by the Joint Property using one of the methods listed below:

(1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property.. The Operator shall consistently apply the selected alternative.

(2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged directly to the Joint Property and shall not be included when calculating the Equalized Freight.

5. SERVICES

The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").

The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).

6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:

A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12%) per annum; provided, however, depreciation shall not be charged when the

equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property~~, less twenty percent (20%)~~. If equipment and facilities are charged under this Section II.6.B, the Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

7. AFFILIATES

A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed to such individual project do not exceed $ 50,000 If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the charges exceed $ 50,000 in a given calendar year.

C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation; provided, however, documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for Affiliate-owned communication facilities or systems shall be made pursuant to Section II.12 (*Communications*).

If the Parties fail to designate an amount in Sections II.7.A or II.7.B, in each instance the amount deemed adopted by the Parties as a result of such omission shall be the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be zero dollars ($ 0.00).

8. DAMAGES AND LOSSES TO JOINT PROPERTY

All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties shall be solely liable.

The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been received by the Operator.

9. LEGAL EXPENSE

Recording fees and costs of handling, settling, or otherwise discharging litigation, claims, and liens incurred in or resulting from operations under the Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the Agreement. Costs of the Operator's or Affiliate's legal staff or outside attorneys, including fees and expenses, are not chargeable unless approved by the Parties pursuant to Section I.6.A (*General Matters*) or otherwise provided for in the Agreement.

Notwithstanding the foregoing paragraph, costs for procuring abstracts, fees paid to outside attorneys for title examinations (including preliminary, supplemental, shut-in royalty opinions, division order title opinions), and curative work shall be chargeable to the extent permitted as a direct charge in the Agreement.

10. TAXES AND PERMITS

All taxes and permitting fees of every kind and nature, assessed or levied upon or in connection with the Joint Property, or the production therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest, except to the extent the penalties and interest result from the Operator's gross negligence or willful misconduct.

If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's working interest.

Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and penalties and interest, are permitted, provided the Non-Operator shall be allowed to review the invoices and other underlying source documents which served as the basis for tax charges and to determine that the correct amount of taxes were charged to the Joint Account. If the Non-Operator is not permitted to review such documentation, the sales/use tax amount shall not be directly charged unless the Operator can conclusively document the amount owed by the Joint Account.

11. INSURANCE

Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are conducted at locations where the Operator acts as self-insurer in regard to its worker's compensation and employer's liability insurance obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the jurisdiction governing the Joint Property. In the case of offshore operations in federal waters, the manual rates of the adjacent state shall be used for personnel performing work On-site, and such rates shall be adjusted for offshore operations by the U.S. Longshoreman and Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

12. COMMUNICATIONS

Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including satellite, radio and microwave facilities, between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance with the provisions of COPAS MFI-44 ("Field Computer and Communication Systems"). If the communications facilities or systems serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (*Equipment and Facilities Furnished by Operator*). If the communication facilities or systems serving the Joint Property are owned by the Operator's Affiliate, charges to the Joint Account shall not exceed average commercial rates prevailing in the area of the Joint Property. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation.

13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or standards recommended by Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All other labor and functions incurred for ecological, environmental and safety matters, including management, administration, and permitting, shall be covered by Sections II.2 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as applicable.

Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable Laws, or other pollution containment and removal equipment deemed appropriate by the Operator for prudent operations, are directly chargeable.

14. ABANDONMENT AND RECLAMATION

Costs incurred for abandonment and reclamation of the Joint Property, including costs required by lease agreements or by Laws.

15. OTHER EXPENDITURES

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations. Charges made under this Section II.15 shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

III. OVERHEAD

As compensation for costs not specifically identified as chargeable to the Joint Account pursuant to Section II (*Direct Charges*), the Operator shall charge the Joint Account in accordance with this Section III.

Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates or third parties and regardless of location, shall include, but not be limited to, costs and expenses of:

- warehousing, other than for warehouses that are jointly owned under this Agreement
- design and drafting (except when allowed as a direct charge under Sections II.13, III.1.A(ii), and III.2, Option B)
- inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
- procurement
- administration
- accounting and auditing
- gas dispatching and gas chart integration

- human resources
- management
- supervision not directly charged under Section II.2 (*Labor*)
- legal services not directly chargeable under Section II.9 (*Legal Expense*)
- taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
- preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings with governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site inspections; reviewing, interpreting, or submitting comments on or lobbying with respect to Laws or proposed Laws.

Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses of personnel performing overhead functions, as well as office and other related expenses of overhead functions.

1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other provisions of this Section III, the Operator shall charge on either:

☑ **(Alternative 1)** Fixed Rate Basis, Section III.1.B.
☐ ~~**(Alternative 2)** Percentage Basis, Section III.1.C.~~

A. TECHNICAL SERVICES

(i) Except as otherwise provided in Section II.13 (*Ecological Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **On-site** Technical Services, including third party Technical Services:

☑ **(Alternative 1 – Direct)** shall be charged **direct** to the Joint Account.

☐ ~~**(Alternative 2 – Overhead)** shall be covered by the **overhead** rates.~~

(ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **Off-site** Technical Services, including third party Technical Services:

☑ **(Alternative 1 – All Overhead)** shall be covered by the **overhead** rates.

☐ ~~**(Alternative 2 – All Direct)** shall be charged **direct** to the Joint Account.~~

☐ ~~**(Alternative 3 – Drilling Direct)** shall be charged **direct** to the Joint Account, **only** to the extent such Technical Services are directly attributable to drilling, redrilling, deepening, or sidetracking operations, through completion, temporary abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover, recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section III.2 (*Overhead - Major Construction and Catastrophe*) shall be covered by the overhead rates.~~

Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are subject to limitations set forth in Section II.7 (*Affiliates*). Charges for Technical personnel performing non-technical work shall not be governed by this Section III.1.A, but instead governed by other provisions of this Accounting Procedure relating to the type of work being performed.

B. OVERHEAD—FIXED RATE BASIS

(1) The Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate per month $ 10,000 (prorated for less than a full month)

Producing Well Rate per month $ 1,000

(2) Application of Overhead—Drilling Well Rate shall be as follows:

(a) Charges for onshore drilling wells shall begin on the spud date and terminate on the date the drilling and/or completion equipment used on the well is released, whichever occurs later. ~~Charges for offshore and inland waters drilling wells shall begin on the date the drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location, or is released, whichever occurs first.~~ No charge shall be made during suspension of drilling and/or completion operations for fifteen (15) or more consecutive calendar days.

(b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of five (5) or more consecutive work days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(3) Application of Overhead—Producing Well Rate shall be as follows:

(a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for any portion of the month shall be considered as a one-well charge for the entire month.

(b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is considered a separate well by the governing regulatory authority.

(c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one-well charge shall be made whether or not the well has produced.

(d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.

(e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a producing overhead charge.

(4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").

~~C. OVERHEAD—PERCENTAGE BASIS~~

~~(1) Operator shall charge the Joint Account at the following rates:~~

~~(a) Development Rate _____ percent (_____) % of the cost of development of the Joint Property, exclusive of costs provided under Section II.9 (*Legal Expense*) and all Material salvage credits.~~

~~(b) Operating Rate _____ percent (_____%) of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1 (*Rentals and Royalties*) and II.9 (*Legal Expense*); all Material salvage credits; the value of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that are levied, assessed, and paid upon the mineral interest in and to the Joint Property.~~

~~(2) Application of Overhead—Percentage Basis shall be as follows:~~

~~(a) The Development Rate shall be applied to all costs in connection with:~~

~~[i] drilling, redrilling, sidetracking, or deepening of a well~~
~~[ii] a well undergoing plugback or workover operations for a period of five (5) or more consecutive work days~~
~~[iii] preliminary expenditures necessary in preparation for drilling~~
~~[iv] expenditures incurred in abandoning when the well is not completed as a producer~~
~~[v] construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 (*Overhead-Major Construction and Catastrophe*).~~

~~(b) The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2 (*Overhead-Major Construction and Catastrophe*).~~

2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator shall either negotiate a rate prior to the beginning of the project, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of the Operator's expenditure limit under the Agreement, or for any Catastrophe regardless of the amount. If the Agreement to which this Accounting Procedure is attached does not contain an expenditure limit, Major Construction Overhead shall be assessed for any single Major Construction project costing in excess of $100,000 gross.

Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, or in the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating facilities.

Catastrophe is defined as a sudden calamitous event bringing damage, loss, or destruction to property or the environment, such as an oil spill, blowout, explosion, fire, storm, hurricane, or other disaster. The overhead rate shall be applied to those costs necessary to restore the Joint Property to the equivalent condition that existed prior to the event.

A. If the Operator absorbs the engineering, design and drafting costs related to the project:

(1) 5 % of total costs if such costs are less than $100,000; plus

(2) 3 % of total costs in excess of $100,000 but less than $1,000,000; plus

(3) 2 % of total costs in excess of $1,000,000.

B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

(1) 3 % of total costs if such costs are less than $100,000; plus

(2) 2 % of total costs in excess of $100,000 but less than $1,000,000; plus

(3) 1 % of total costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single Major Construction project shall not be treated separately, and the cost of drilling and workover wells and purchasing and installing pumping units and downhole artificial lift equipment shall be excluded. For Catastrophes, the rates shall be applied to all costs associated with each single occurrence or event.

On each project, the Operator shall advise the Non-Operator(s) in advance which of the above options shall apply.

For the purposes of calculating Catastrophe Overhead, the cost of drilling relief wells, substitute wells, or conducting other well operations directly resulting from the catastrophic event shall be included. Expenditures to which these rates apply shall not be reduced by salvage or insurance recoveries. Expenditures that qualify for Major Construction or Catastrophe Overhead shall not qualify for overhead under any other overhead provisions.

In the event of any conflict between the provisions of this Section III.2 and the provisions of Sections II.2 (*Labor*), II.5 (*Services*), or II.7 (*Affiliates*), the provisions of this Section III.2 shall govern.

3. AMENDMENT OF OVERHEAD RATES

The overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient or excessive, in accordance with the provisions of Section I.6.B (*Amendments*).

IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality, fitness for use, or any other matter.

1. DIRECT PURCHASES

Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to the extent such failure was the result of the Operator's gross negligence or willful misconduct. A direct purchase shall be deemed to occur when an agreement is made between an Operator and a third party for the acquisition of Material for a specific well site or location. Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material does not pass from the manufacturer, distributor, or agent until usage, is considered a direct purchase. If Material is found to be defective or is returned to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account within sixty (60) days after the Operator has received adjustment from the manufacturer, distributor, or agent.

2. TRANSFERS

A transfer is determined to occur when the Operator (i) furnishes Material from a storage facility or from another operated property, (ii) has assumed liability for the storage costs and changes in value, and (iii) has previously secured and held title to the transferred Material. Similarly, the removal of Material from the Joint Property to a storage facility or to another operated property is also considered a transfer; provided, however, Material that is moved from the Joint Property to a storage location for safe-keeping pending disposition may remain charged to the Joint Account and is not considered a transfer. Material shall be disposed of in accordance with Section IV.3 (*Disposition of Surplus*) and the Agreement to which this Accounting Procedure is attached.

A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties pursuant to Section I.6.A (*General Matters*). Transfers of new Material will be priced using one of the following pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

(1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).

(a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base prices (Houston, Texas, for special end) adjusted as of date of movement, plus transportation cost as defined in Section IV.2.B (*Freight*).

(b) For other Material, the published price shall be the published list price in effect at date of movement, as listed by a Supply Store nearest the Joint Property where like Material is normally available, or point of manufacture plus transportation costs as defined in Section IV.2.B (*Freight*).

(2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.

(3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the previous twelve (12) months from the date of physical transfer.

(4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties owning the Material for Material being transferred from the Joint Property.

B. FREIGHT

Transportation costs shall be added to the Material transfer price using the method prescribed by the COPAS Computerized Equipment Pricing System (CEPS). If not using CEPS, transportation costs shall be calculated as follows:

(1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38 ("Material Pricing Manual") and other COPAS MFIs in effect at the time of the transfer.

(2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway Receiving Point.

(3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the Railway Receiving Point.

(4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point

Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the Joint Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as provided in Section II.4 (*Transportation*) of this Accounting Procedure.

C. TAXES

Sales and use taxes shall be added to the Material transfer price using either the method contained in the COPAS Computerized Equipment Pricing System (CEPS) or the applicable tax rate in effect for the Joint Property at the time and place of transfer. In either case, the Joint Account shall be charged or credited at the rate that would have governed had the Material been a direct purchase.

D. CONDITION

(1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties owning such Material, pursuant to Section I.6.A (*General Matters*). All refurbishing costs required or necessary to return the Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material for the receiving property.

(2) Condition "B" – Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by seventy-five percent (75%).

Except as provided in Section IV.2.D(3), all reconditioning costs required to return the Material to Condition "B" or to correct handling, transportation or other damages will be borne by the divesting property.

If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint Property, the Material will be credited at the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) multiplied by sixty-five percent (65%).

Unless otherwise agreed to by the Parties that paid for such Material, used Material transferred from the Joint Property that was not placed in service on the property shall be credited as charged without gain or loss.

(3) Condition "C" – Material that is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by fifty percent (50%).

The cost of reconditioning may be charged to the receiving property to the extent Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for items with different specifications, is considered Condition "D" Material. Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing, tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A (*General Matters*).

(5) Condition "E" – Junk shall be priced at prevailing scrap value prices.

E. OTHER PRICING PROVISIONS

(1) Preparation Costs

Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of the Materials and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or credits shall be made for used coating or wrapping. Charges and credits for inspections shall be made in accordance with COPAS MFI-38 ("Material Pricing Manual").

(2) Loading and Unloading Costs

Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged in accordance with the methods specified in COPAS MFI-38 ("Material Pricing Manual").

3. DISPOSITION OF SURPLUS

Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but shall be under no obligation to purchase, the interest of the Non-Operators in surplus Material.

Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the Joint Property to either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus Material, the Operator should make good faith efforts to dispose of surplus within twelve (12) months through buy/sale agreements, trade, sale to a third party, division in kind, or other dispositions as agreed to by the Parties.

Disposal of surplus Materials shall be made in accordance with the terms of the Agreement to which this Accounting Procedure is attached. If the Agreement contains no provisions governing disposal of surplus Material, the following terms shall apply:

- The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is attached without the prior approval of the Parties owning such Material.

- If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such Material.

- Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on the pricing methods set forth in Section IV.2 (*Transfers*).

- Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the Materials, based on the pricing methods set forth in Section IV.2 (*Transfers*), is less than or equal to the Operator's expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as Condition C.

- Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior approval of the Parties owning such Material.

4. SPECIAL PRICING PROVISIONS

A. PREMIUM PRICING

Whenever Material is available only at inflated prices due to national emergencies, strikes, government imposed foreign trade restrictions, or other unusual causes over which the Operator has no control, for direct purchase the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, making it suitable for use, and moving it to the Joint Property. Material transferred or disposed of during premium pricing situations shall be valued in accordance with Section IV.2 (*Transfers*) or Section IV.3 (*Disposition of Surplus*), as applicable.

B. SHOP-MADE ITEMS

Items fabricated by the Operator's employees, or by contract laborers under the direction of the Operator, shall be priced using the value of the Material used to construct the item plus the cost of labor to fabricate the item. If the Material is from the Operator's scrap or junk account, the Material shall be priced at either twenty-five percent (25%) of the current price as determined in Section IV.2.A (*Pricing*) or scrap value, whichever is higher. In no event shall the amount charged exceed the value of the item commensurate with its use.

C. MILL REJECTS

Mill rejects purchased as "limited service" casing or tubing shall be priced at eighty percent (80%) of K-55/J-55 price as determined in Section IV.2 (*Transfers*). Line pipe converted to casing or tubing with casing or tubing couplings attached shall be priced as K-55/J-55 casing or tubing at the nearest size and weight.

V. INVENTORIES OF CONTROLLABLE MATERIAL

The Operator shall maintain records of Controllable Material charged to the Joint Account, with sufficient detail to perform physical inventories.

Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable Material shall be made within twelve (12) months following the taking of the inventory or receipt of Non-Operator inventory report. Charges and credits for overages or shortages will be valued for the Joint Account in accordance with Section IV.2 (*Transfers*) and shall be based on the Condition "B" prices in effect on the date of physical inventory unless the inventorying Parties can provide sufficient evidence another Material condition applies.

1. DIRECTED INVENTORIES

Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform directed inventories more frequently than once every five (5) years. Directed inventories shall be commenced within one hundred eighty (180) days after the Operator receives written notice that a majority in interest of the Non-Operators has requested the inventory. All Parties shall be governed by the results of any directed inventory.

Expenses of directed inventories will be borne by the Joint Account; provided, however, costs associated with any post-report follow-up work in settling the inventory will be absorbed by the Party incurring such costs. The Operator is expected to exercise judgment in keeping expenses within reasonable limits. Any anticipated disproportionate or extraordinary costs should be discussed and agreed upon prior to commencement of the inventory. Expenses of directed inventories may include the following:

A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel performing the inventory or a rate agreed to by the Parties pursuant to Section I.6.A (*General Matters*). The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report preparation.

B. Actual transportation costs and Personal Expenses for the inventory team.

C. Reasonable charges for report preparation and distribution to the Non-Operators.

2. NON-DIRECTED INVENTORIES

A. OPERATOR INVENTORIES

Physical inventories that are not requested by the Non-Operators may be performed by the Operator, at the Operator's discretion. The expenses of conducting such Operator-initiated inventories shall not be charged to the Joint Account.

B. NON-OPERATOR INVENTORIES

Subject to the terms of the Agreement to which this Accounting Procedure is attached, the Non-Operators may conduct a physical inventory at reasonable times at their sole cost and risk after giving the Operator at least ninety (90) days prior written notice. The Non-Operator inventory report shall be furnished to the Operator in writing within ninety (90) days of completing the inventory fieldwork.

C. SPECIAL INVENTORIES

The expense of conducting inventories other than those described in Sections V.1 (*Directed Inventories*), V.2.A (*Operator Inventories*), or V.2.B (*Non-Operator Inventories*), shall be charged to the Party requesting such inventory; provided, however, inventories required due to a change of Operator shall be charged to the Joint Account in the same manner as described in Section V.1 (*Directed Inventories*).

Exhibit D
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

NOTICE OF OPERATING AGREEMENT
AND FINANCING STATEMENT

This Notice of Operating Agreement and Financing Statement is executed by Merit Energy Company, LLC, 13727 Noel Road, Suite 1200, Dallas, Texas 75240, as Operator, to be effective on the effective date of the Operating Agreement described herein.

Operator hereby gives notice to all interested parties, that Operator has entered into that certain Joint Operating Agreement, Hylbom Morrow Unit ("Operating Agreement"), by and between Operator and other owners of working interests in and to the Oil and Gas Leases described on Exhibit A attached hereto, as Non-Operators, governing unit operations under such Leases insofar as they cover the lands and depths described on Exhibit A, and that Non-Operators' interests in the Oil and Gas Leases described on Exhibit A hereto are subject to the terms and provisions of the Operating Agreement. The names and addresses of Non-Operators are set forth on Exhibit B attached hereto.

Operator further gives notice that the Operating Agreement includes a provision wherein each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment and personal property, to secure payment of its obligations under the Operating Agreement.

This instrument is to be recorded in the land records, and is intended as a Financing Statement covering as-extracted collateral, and equipment and personal property acquired in unit operations.

IN WITNESS WHEREOF, Operator has executed this Notice the date of the acknowledgement below.

MERIT ENERGY COMPANY, LLC

By_____
Name: Christopher S. Hagge
Title: Vice President

Exhibit D
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

This instrument was acknowledged before me on this _____ day of _____, 2017, by Christopher S. Hagge, as Vice President of Merit Energy Company, LLC, a Delaware limited liability company, on behalf of said company.

_____
Notary Public

My commission expires:

Exhibit D
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

Exhibit A

"Leases"

TRACT 1: E/2 Sec. 25-T23S-R35W
LESSOR: TOR HYLBOM AND THE EXCHANGE NATIONAL BANK, OF COLORADO SPRINGS, COLORADO, TRUSTEES UNDER THE LAST WILL AND TESTAMENT OF CLARENCE CLARK HAMLIN
INTEREST: 8/8
LESSEE: STANOLIND OIL AND GAS COMPANY
DATE: 5/27/1946
RECORDED: BOOK 14, PAGE 456
MERIT FILE #: 1253-66375 (61538853)

TRACT 2: W/2 Sec. 30-T23S-R34W
LESSOR: THE NOLAN MOTOR COMPANY, A KANSAS CORPORATION
INTEREST: 4/8
LESSEE: JOE E. DENHAM
DATE: 10/19/1943
RECORDED: BOOK 13, PAGE 28
MERIT FILE #: 1253-62117 (61500393)

TRACT 2: W/2 Sec. 30-T23S-R34W
LESSOR: TOR HYLBOM AND THE EXCHANGE NATIONAL BANK, OF COLORADO SPRINGS, COLORADO, TRUSTEES UNDER THE LAST WILL AND TESTAMENT OF CLARENCE CLARK HAMLIN
INTEREST: 4/8
LESSEE: JOE E. DENHAM
DATE: 10/04/1943
RECORDED: BOOK 13, PAGE 54
MERIT FILE #: 1253-62118 (61500393)

TRACT 3: N/2 NE/4 Sec. 30-T23S-R34W
LESSOR: HERBERT MEYER AND WILMA L. MEYER, HIS WIFE
INTEREST: 8/8
LESSEE: J. E. O'DONNELL
DATE: 9/11/1941
RECORDED: BOOK 11, PAGE 362
MERIT FILE #: 629-29846

TRACT 4: S/2 NE/4 Sec. 30-T23S-R34W
LESSOR: HERBERT MEYER AND WILMA L. MEYER, HIS WIFE
INTEREST: 8/8
LESSEE: J. E. O'DONNELL
DATE: 9/11/1941
RECORDED: BOOK 11, PAGE 362
MERIT FILE #: 629-29846

Exhibit D
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

Lands

E/2 Section 25-T23S-R35W, Kearny County, Kansas
W/2 & NE/4 Section 30-23S-34W, Finney County, Kansas

Depths

The lands, oil and gas leases and oil and gas interests subject to this Agreement, as unitized, shall be limited INSOFAR AND ONLY INSOFAR as they pertain to Oil and Gas produced from the stratigraphic equivalent of the Morrow formation encountered in the subsurface of the Contract Area between the base of the Atoka 4,584' MD (-1,591' TVDSS) and the top of the St. Louis 4,837' MD (-1,844' TVDSS) as shown on the well log for the Hylbom A-2 well (API No. 15-093-21877) located in the SE NE NE Section 25-T23S-R35W, Kearny County, Kansas.

Exhibit D
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

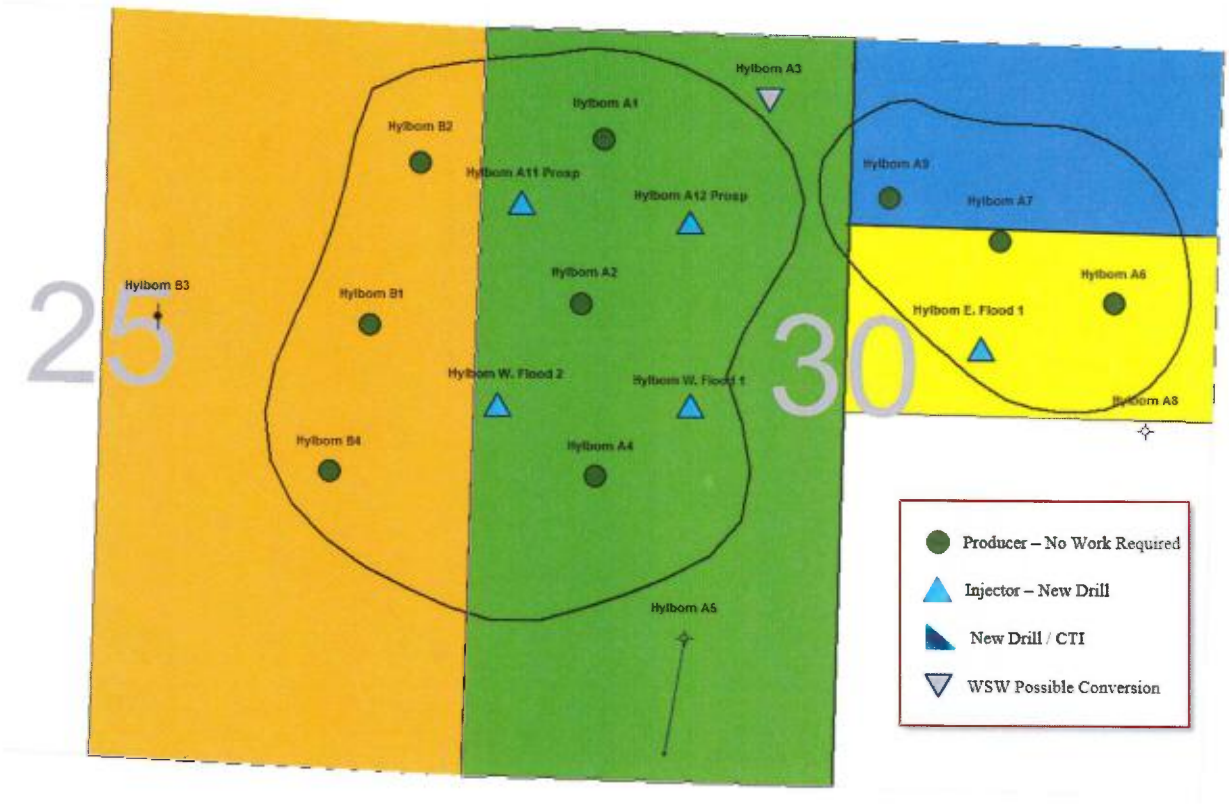
Exhibit B

Non-Operators

Merit Hugoton, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Management Partners I, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Partners II, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Energy Partners III, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Energy Partners D-III, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240
Merit Energy Partners E-III, L.P.	13727 Noel Road, Suite 1200 Dallas, Texas, 75240

Exhibit E
Hylbom Morrow Unit
Operator: Merit Energy Company, LLC

DEVELOPMENT PLAN



Summary of Development Plan:
Operator proposes to form the Hylbom Morrow Unit for the purpose of increasing oil recovery in the common Morrow pool through water injection ("waterflooding").

The development plan is a patterned flood designed to displace oil from injectors located in the currently identified productive extents of the Morrow pool/reservoir underlying the Contract Area towards centrally located producing wells. As depicted above, the patterned flood will be executed by drilling and converting wells to complete patterns. Injection wells will inject water into the Morrow formation. A central water handling facility will be used to manage and distribute injection water through trunk lines to individual wells, and other surface and subsurface facilities will be installed, operated and maintained as needed. Tank batteries will be used to handle produced fluids & transfer water back to the central water handling facility for re-injection.

Modifications to this development plan may occur to optimize economics and/or operations, with the overriding goal of preventing waste and increasing the volume of oil ultimately recovered from the Morrow pool/reservoir.

EXHIBIT D

To the Application of Merit Energy Company, LLC (#32446) for an order authorizing the unitization and unit operation of the Hylbom Morrow Unit

Interested Owners

Hamlin Family 29, LLC
PO Box 1588
Tulsa, OK 74101

Kent A. Maddux
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