

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Application of Canaday)
Oil Corporation for an Order Authorizing)
the Unitization and Unit Operation of the)
Irons Morrow Sand Unit in Clark County,)
Kansas)
_____)

Docket No. 23-CONS- 3103 -CUNI

CONSERVATION DIVISION

License No. 5303

APPLICATION

Canaday Oil Corporation (“Canaday Oil”) submits this Application for an order from the State Corporation Commission of the State of Kansas (“Commission”) authorizing the unitization and unit operation of the Irons Morrow Sand Unit in Clark County, Kansas pursuant to K.S.A. 55-1301, *et. seq.* In support of its Application, Canaday Oil alleges and states:

1. Canaday Oil is a Kansas corporation and is duly licensed, authorized, and active and in good standing with the Kansas Secretary of State’s office to do business in Kansas. Canaday Oil’s business address is 2407 Saint Andrews Street, Goddard, Kansas 67052.
2. The Commission issued Canaday Oil operator’s license #5303, which is in full force and effect.
3. One of Canaday Oil’s owners, Grant M. Canaday, is a working interest owner in certain oil and gas leases covering the pool sought to be unitized pursuant to this Application. Canaday Oil operates said leases and is authorized to file this Application on Mr. Canaday’s behalf.
4. The proposed Irons Morrow Sand Unit would contain approximately 760 contiguous acres located in Clark County, Kansas (“Unit Area”), which acreage is depicted in Exhibit A to the Unit Agreement (Exhibit A), and more particularly described as follows:

TRACT 1: NW/4 Section 17-T30S-R24W, Clark County

TRACT 2: SW/4 Section 8-T30S-R24W, Clark County, and
SE/4 Section 7-T30S-R24W, Clark County

TRACT 3: NW/4 Section 8-T30S-R24W, Clark County

TRACT 4: E/2 NE/4 Section 7-T30S-R24W, Clark County

TRACT 5: NE/4 NE/4 Section 18-T30S-R24W, Clark County

5. Pursuant to K.S.A. 55-1304(a)(2), Canaday Oil proposes to unitize and operate the oil rights only insofar as they cover the Morrow Sand Formation underlying the Unit Area of which the stratigraphic equivalent of which is shown to be between the depths of 5,300 feet and 5,340 feet to the Compensated Neutron Formation Density, dated July 23, 1988 in the Irons Unit #1-8 well located in the West Half of the Southwest Quarter of the Southwest Quarter (W/2 SW/4 SW/4) of Section 8, Township 30 South, Range 24 West, Clark County, Kansas ("Unitized Formation").

6. The Unitized Formation contains underground accumulations of oil in one or more natural reservoirs in communication so as to constitute a single pressure system (i.e., a pool). Canaday Oil intends to conduct an enhanced oil recovery project within the Unitized Formation which would involve injecting water, gas, or other fluids, or any combination thereof, into the Unitized Formation in a patterned flood to increase reservoir pressure and displace oil from injection wells towards producing wellbores to efficiently and economically increase the ultimate recovery of oil from the pool within the Unitized Formation.

7. Oil produced from the Irons Morrow Sand Unit will be allocated across the five above-described tracts based upon the following three weighted participation factors:

50% Historical oil production

30% Acre-feet derived from the Morrow Sand Isopach Map (Exhibit E to the Unit Agreement (Exhibit A))

20% Usable wells

The oil production to be allocated to each of the five tracts is set forth in Table 1 to the Unit Agreement (Exhibit A). Exhibit C to the Unit Agreement (Exhibit A) describes how produced oil will be allocated among the various interest owners of each tract based upon such tract participations.

8. Canaday Oil will be the unit operator.

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 will increase substantially the ultimate recovery of oil. *See* K.S.A. 55-1304(a)(2).

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 recovery operations. *See* K.S.A. 55-1304(b).

11. The Unit Agreement and Unit Operating Agreement comprising Canaday Oil's plan for unit operations ("Plan") are attached hereto as "Exhibit A" and "Exhibit B," respectively. The proposed operations outlined in the Plan are fair, reasonable, and equitable to all interest owners. *See* K.S.A. 55-1304(c).

12. As of the date of this Application, the Plan for unit operations has been approved by 87.74% of the persons required to pay the costs of unit operations and by 89.19% of the owners of the production or proceeds that will be credited to royalties, excluding overriding royalties or other like interests carved out of the leasehold estate. Canaday Oil can furnish the written consents from the interest owners upon request.

13. Attached as "Exhibit C" is a list of the names and addresses of all oil and gas lessees, lessors, mineral owners, and mortgagees of oil and gas interests having an interest in the Unit Area whose names and addresses Canaday Oil has been able to determine after diligent search and inquiry. The minerals owned by the Karen Lee Byerley Revocable Trust dated July 1, 2019, Louise Ann West, John Bair, Mark and Michelle Mahieu, Linda and Edward Mahieu, and O'Brien Family Trust of 2011 dated July 22, 2011 are currently unleased and are therefore "regarded as a working interest owner to the extent of a 7/8 interest in and to such rights and a royalty owner to the extent of the remaining 1/8 interest" pursuant to K.S.A. 55-1308.

14. Canaday Oil has sent a copy of this Application and the Notice of Application by regular mail to all parties listed on Exhibit C, and is causing the Notice of Application to be published in *The*

Wichita Eagle and *Clark County Gazette*, the official newspaper for Clark County, Kansas. As a result, notice complies with K.S.A. 55-1310, K.S.A. 55-605, and K.A.R. 82-3-135a(d), 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.

15. Canaday Oil requests that the Commission issue an Order providing for the unitization and unit operation of the Irons Morrow Sand Unit pursuant to K.S.A. 55-1301, *et seq.*

WHEREFORE, Canaday Oil prays that the Commission docket this Application and, if no written protest is received by the Commission within fifteen (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 Irons Morrow Sand Unit comprised of the above-described lands pursuant to the Unit Agreement and Unit Operating Agreement. In the event a timely and proper protest is filed, Canaday Oil requests that the Commission set this Application for hearing and, upon such hearing, grant the requested order and provide for such other further relief as the Commission deems necessary and proper.

Respectfully submitted,

FOULSTON SIEFKIN LLP



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Fax: (316) 267-6345
Email: rmcfadden@foulston.com

Attorneys for Canaday Oil Corporation

VERIFICATION

STATE OF KANSAS)
)
COUNTY OF SEDGWICK)

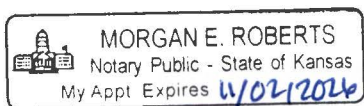
Robert J. McFadden, of lawful age, being first duly sworn upon oath states:

That he is the attorney for Canaday Oil Corporation, and he has read the foregoing Application and is familiar with the contents and the statements made therein are true and correct to the best of his knowledge and belief.

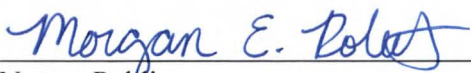


Robert J. McFadden

SUBSCRIBED AND SWORN TO before me this 5th day of October, 2023.




My Commission Expires: 11/02/2024



Notary Public

CERTIFICATE OF SERVICE

I, Robert J. McFadden, hereby certify that on this 5th day of October, 2023, I caused true and correct copies of the following Notice of Application and the foregoing Application with its attached Exhibits A, B, and C to be electronically filed with the Conservation Division of the State Corporation Commission of the State and Kansas, and caused true and correct copies of the same to be mailed via United States mail, postage prepaid, to all interested parties listed in Exhibit C to the Application.



Robert J. McFadden, #27180

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Application of Canaday)	Docket No. 23-CONS-_____-CUNI
Oil Corporation for an Order Authorizing)	
the Unitization and Unit Operation of the)	CONSERVATION DIVISION
Irons Morrow Sand Unit in Clark County,)	
Kansas)	
_____)	License No. 5303

NOTICE OF PENDING APPLICATION

TO ALL OIL AND GAS OPERATORS, PRODUCERS, OIL AND GAS LESSORS AND ROYALTY OWNERS, LANDOWNERS, MINERAL INTEREST OWNERS, MORTGAGEES OF OIL AND GAS INTERESTS, AND ALL PERSONS WHOMSOEVER CONCERNED:

You, and each of you, are hereby notified that Canaday Oil Corporation ("Canaday Oil") has filed an application with the State Corporation Commission of the State of Kansas ("KCC") pursuant to K.S.A. 55-1301, *et seq.*, requesting an Order authorizing the unitization and unit operation of the Irons Morrow Sands Unit in Clark County, Kansas, consisting of the Morrow Sand Formation. The unit area subject to the requested Order is as follows:

Township 30 South, Range 24 West:

Section 7:	SE/4; E/2 NE/4
Section 8:	W/2
Section 17:	NW/4
Section 18:	NE/4 NE/4

You are further notified that unless written protest or request for hearing is received by the KCC within 15 days after publication of this Notice, the Application in this matter may be granted without hearing or further notice to any interested party. All objections and protests shall clearly state the reasons why granting the Application will cause waste, violate correlative rights, or pollute water resources. Objections or protests should be mailed to the KCC, Conservation Division, 266 North Main Street, Suite 220, Wichita, Kansas 67202, with a copy to Canaday Oil's attorney below. All parties interested or concerned shall take notice of the foregoing and govern themselves accordingly.

Robert J. McFadden, #27180
FOULSTON SIEFKIN LLP
1551 N. Waterfront Pkwy., Suite 100
Wichita, Kansas 67206
Office: (316) 267-6371
Fax: (316) 267-6345

Attorneys for Canaday Oil Corporation

Exhibit A

**to the Application of Application of Canaday Oil Corporation (#5303) for an Order Authorizing
the Unitization and Unit Operation of the Irons Morrow Sand Unit**

UNIT AGREEMENT

UNIT AGREEMENT
IRONS MORROW SAND UNIT
CLARK COUNTY KANSAS

THIS AGREEMENT, entered into as of the 10th day of April, 2023, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto,

WITNESSETH:

WHEREAS, in the interest of the public welfare and to promote conservation and substantially increase the ultimate recovery of Unitized Substances from parts of the Fager Southeast and Appleton Northwest Fields, Clark County, Kansas, it is deemed necessary and desirable to enter into this Agreement to unitize the Oil and Gas Rights in and to the Morrow Sand Formation in order to conduct Unit Operations as herein provided and to protect the rights of the owners of Oil and Gas Rights therein, pursuant to K.S.A. 55-1301, *et seq.*, or by unanimous approval of all Royalty Owners and Working Interest Owners.

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

ARTICLE I
DEFINITIONS

As used in this Agreement:

1.1 Unit Area is the land described by Tracts in Exhibit "B" and shown on Exhibit "A" as to which this Agreement becomes effective or to which it may be extended as herein provided.

1.2 Unitized Formation shall mean the interval between 5300' and 5340' to the Compensated Neutron Formation Density dated July 23, 1988 in the Irons Unit #1-8 well, located W/2 SW SW Section 8-30S-24W, Clark County, Kansas.

1.3 Unitized Substances are all oil, gas, gaseous substances, hydrocarbons or other marketable substances contained in or produced in association with such oil, gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation, other than Outside Substances, as defined hereinafter.

1.4 Working Interest is an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, including a carried interest, the owner of which interest is obligated to pay, either in cash or out of production or otherwise, a portion of the Unit Expense; however, the owner of Oil and Gas Rights that are free of lease or other instrument creating a Working Interest shall be regarded as a Working Interest Owner to the extent of a seven-eighths interest and a Royalty Owner to the extent of a one-eighth interest therein. 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 in the Unit Operating Agreement.

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 Person hereto who owns a Royalty Interest.

1.7 Working Interest Owner is a Person hereto who owns a Working Interest.

1.8 Tract is the land described as such and given a Tract Number in Exhibit "B".

1.9 Unit Operating Agreement is the agreement entered into by Working Interest Owners, having the same effective date as the Effective Date of this Agreement, entitled "Unit Operating Agreement, Irons Morrow Sand Unit, Clark County, Kansas.

1.10 Unit Operator is the Working Interest Owner designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations, acting as operator and not as a Working Interest Owner.

1.11 Tract Participation is the decimal interest shown on Exhibit "C" for allocating Unitized Substances to a Tract.

1.12 Unit Participation of a Working Interest Owner is the sum of the decimal interest obtained by multiplying the Working Interest of such Working Interest Owner in each Tract that qualifies for inclusion within the Unit Area by the Tract Participation of such Tract.

1.13 Outside Substances are substances purchased or otherwise obtained for a consideration or other Unit Expense of Working Interest Owners and injected into the Unitized Formation.

1.14 Oil and Gas 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.

1.15 Unit Operations are all operations conducted pursuant to this Agreement and the Unit Operating Agreement.

1.16 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.

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

1.18 Effective Date is the time and date this Agreement becomes effective as provided in Article 15.

1.19 Person 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.

1.20 Corporation Commission shall mean the Corporation Commission of the State of Kansas.

ARTICLE 2
EXHIBITS

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

2.1.1 Exhibit "A" is a map that shows the boundary lines of the Irons Morrow Sand Unit Area and the Tracts therein.

2.1.2 Exhibit "B" is a schedule that describes each Tract in the Irons Morrow Sand Unit Area.

2.1.3 Exhibit "C" is a schedule that shows the Royalty Owners and Working Interest Owners that own an interest in each Tract and the Unit participation of each interest owner.

2.1.4 Exhibit "D" are excerpts from the Compensated Neutron Formation Density Log from the Irons #1-8 well showing formation tops.

2.1.5 Exhibit "E" is a Morrow Sand Net Pay Isopach Map for the Irons Morrow Sand Unit Area and the tracts therein.

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

2.3 Exhibits Considered Correct. Exhibits "A", "B", "C", "D" and "E" shall be considered to be correct until revised as herein provided.

2.4 Correcting Errors. The descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date, should have been subdivided or otherwise divided into more than one Tract, or that any mechanical miscalculation or clerical error has been made, Unit Operator, with the approval of Working Interest Owners, 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 Participation. Exhibits will initially be corrected based on tide opinions obtained or furnished prior to the Unit becoming effective and thereafter, each such revision of an exhibit made after the Effective Date shall be effective as of 7:00 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 the Working Interest Owners and set forth in the revised exhibit.

2.5 Filing Revised Exhibits. If an exhibit is revised, Unit Operator shall execute an appropriate instrument with the revised exhibit attached and file the same for record in the county or counties in which this Agreement is filed.

ARTICLE 3
CREATION AND EFFECT OF UNIT

3.1 Oil and Gas Rights Unitized. All Oil and Gas Rights of Royalty Owners in and to the lands described in Exhibit "B", and all Oil and Gas Rights of Working Interest Owner in and to said lands, are hereby unitized insofar as the respective Oil and Gas 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 all 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 any 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 Working Interest Owners. The rights and interests therein as among Working Interest Owners are set forth in the Unit Operating Agreement.

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 force and effect as provided therein.

3.4 Continuation of Leases and Term Interests. For the purpose of giving effect to the terms and provisions related to the perpetuation and/or maintenance of leasehold interests or other term-limited interests in exploration, operation and/or production on or within the Unit Area, as contained in existing oil and gas leases or other agreements covering Oil and Gas Rights in the Unit Area, it shall be considered that production from the Unitized Formation from any part of the Unit Area and/or Unit Operations on any part of the Unit Area shall be considered as production from and/or operations upon each Tract, and such production or operations shall continue in effect each lease or term mineral 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. The allocation of such production shall be as provided in Articles 5 and 6 herein.

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

3.6 Injection Rights. Royalty Owners hereby grant to Working Interest Owners the right to inject into the Unitized Formation any substances in whatever amounts Working Interest Owners deem expedient for Unit Operations, together with the right to drill, use and maintain injection wells on the Unit Area, and to use for injection purposes any nonproducing or abandoned wells or dry holes, and any producing wells completed in the Unitized Formation. Working Interest Owners shall obtain the appropriate injection authority from the Corporation Commission prior to commencing any such injection operations

3.7 Development Obligation. Nothing herein shall relieve Working Interest Owners from any obligation to develop reasonably as a whole the lands and leases committed hereto.

3.8 Cooperative Agreements. Unit Operator may, after approval by Working Interest Owners, enter into cooperative agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations, drilling boundary line wells or such other operations as Working Interest Owners may deem necessary or advisable to increase the ultimate recovery of Unitized Substances.

ARTICLE 4
UNIT OPERATIONS

4.1 Unit Operator. Working Interest Owners are concurrently herewith entering into the Unit Operating Agreement, designating the Canaday Oil Corporation 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 end that the quantity of Unitized Substances ultimately recoverable may be substantially increased and waste prevented, Working Interest Owners shall, with diligence and in accordance with good engineering and production practices, engage in secondary recovery operations by injection of water, gas (including, but not limited to, carbon dioxide or nitrogen) or other fluids or combinations thereof deemed necessary or desirable to efficiently and economically increase the ultimate recovery of Unitized Substances.

4.3 Change in Method of Operation. Nothing herein shall prevent Working Interest Owners from discontinuing or changing in whole or in part any method of operation that, in their opinion, is no longer economic or in accord with good engineering or production practices. Other methods of operation may be conducted or changes may be made by 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.

4.4 Determination by Working Interest Owners. Unless otherwise provided in this Agreement, all decisions, determinations, or approvals by the Working Interest Owners shall be made pursuant to the voting procedure of Section 4.3 of the Unit Operating Agreement.

ARTICLE 5
TRACT PARTICIPATIONS

5.1 Tract Participations. Beginning at 7:00 A.M. on the Effective Date hereof, the Tract Participation of each Tract shall be based upon the following parameters, factors and formula as described in Table "1" attached hereto. Table "1" identifies the Tracts within the Unit Area, the data used to determine the relative participation of each Tract with respect to the Tract Participation parameters and the allocation of decimal interest participation of each such Tract herein. The figure set forth opposite each Tract in Table "1" represents the Tract Participation to which such Tract is entitled and is committed hereto as of the Effective Date.

5.2 Relative Tract Participation. If the Unit Area is enlarged or reduced, the revised Tract Participation of the Tracts remaining in the Unit Area (that were within the Unit Area prior to the enlargement or reduction) shall remain in the same ratio one to another, such that relative participation among such Tracts shall remain the same.

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 Participation as shown on Table "1". 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 the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

6.2 Distribution within Tracts. Except as otherwise provided in this Agreement and as set out in Exhibit "C", the Unitized Substances allocated to each Tract shall be distributed among, or accounted for, to the Persons 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 and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, 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. Any royalty or other payment which depends upon per well production or pipeline runs from a well or wells on a Tract shall, after the Effective Date, be determined by dividing the Unitized Substance allocated to the Tract by the number of wells on the Tract capable of producing Unitized Substances on the Effective Date; however, if any Tract has no well thereon capable of producing Unitized Substance on the Effective Date, the Tract shall for the purpose of this determination, be deemed to have one such well thereon.

6.3 Taking Unitized Substances in Kind. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Persons entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such Person 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 expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of Unitized Substances shall be borne by the owners taking such portion in kind. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of Unitized Substances.

6.4 Failure to Take in Kind. If any Person fails to take in kind or separately dispose of such Person'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 Person owning such share, to purchase or sell to others such share; however, all contracts of sale by Unit Operator of any other Person'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 three years. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owners of each affect Tract or to an agent designated by such Working Interest Owners who shall distribute such proceeds to the Persons entitled thereto. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other Person's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

6.5 Responsibility for Royalty Settlements. Any Person receiving in kind or separately disposing of all or part of the Unitized Substances allocated to any Tract shall be responsible for the payment of all royalties, overriding royalties, production payments and all other payments chargeable against or payable out of such Unitized Substances, and shall indemnify all Persons hereto, including Unit Operator, against any liability for such payment. For all other production, Unit Operator shall arrange for the distribution of the proceeds of production to the owners thereof.

6.6 Royalty on Outside Substances. If any Outside Substance consisting of marketable natural gas is injected into the Unitized Formation, then for the first three months after the date of first injection, seventy five percent (75%) and thereafter, one-hundred percent (100%) of any like substance contained in Unitized Substances subsequently produced and sold, or used for other than Unit Operations, shall be deemed to be a part of the Outside Substances so injected until the total volume deemed to be such Outside Substance equals the total volume of such Outside substance so injected. No payment shall be due or payable to Royalty Owners on substance 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 is in lease and/or other oil storage tanks as of 7:00 A.M. on the Effective Date. Oil or other liquid hydrocarbons in treating vessels, separation equipment and tanks below pipeline connections shall not be considered to be merchantable. Any merchantable oil or liquid hydrocarbons that are a part of or attributable to the prior allowable of the wells from which they were produced shall remain the property of the Persons entitled thereto as if this Agreement had not yet taken effect. 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. Any oil or liquid hydrocarbons in excess of that attributable to the prior allowable of the wells from which they were produced shall be regarded as Unitized Substances produced after the Effective Date.

ARTICLE 8

USE OR LOSS OF UNITIZED SUBSTANCES

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

8.2 Royalty Payments. No obligation to pay or liability for royalty, overriding royalty or other payments out of production shall arise or otherwise be payable on account of Unitized Substances used, lost or consumed in Unit Operations.

ARTICLE 9
TITLE

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 Person claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners shall either:

(a) require that the Person to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting thereof to the rightful owner if the title or right of such Person 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 to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the Person 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 Interest 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, interest 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, with approval of the Working Interest Owners 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 as provided in the Unit Operating Agreement Unit Operator shall, if possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due any such delinquent taxpayer an amount sufficient to defray the costs of such payment or redemption, and such withholdings shall be credited to the Working Interest Owners bearing the Unit Expense attributable to same. Such withholding shall be without prejudice to any other remedy available to Unit Operator or Working Interest Owners.

9.4 Transfer of Title. Any conveyance of all or any part of any interest owned by a Person with respect to any Tract shall be subject to this Agreement. No change of title shall be binding upon Unit Operator, or upon any Person other than the Person so transferring until 7:00 AM. on the first day of the calendar month next succeeding the date of receipt by Unit Operator of a photocopy or a certified copy of the recorded instrument evidencing such change in ownership.

9.5 Waiver of Rights to Partition. Each party agrees that, during the existence of this Agreement, it will not resort to any action to partition the Unitized Formation, the Unit Area, or the Unit Equipment, and to that extent waives the benefits of all laws authorizing a partition.

ARTICLE 10
EASEMENTS AND USE OF SURFACE

10.1 Grant of Easements. The parties hereto, to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the Unit Area and the subsurface thereunder as may be reasonably necessary for Unit Operations and for the production, sale and removal of Unitized Substances from the Unit Area. This grant, however, shall not be deemed to alter or revise any terms or conditions currently existing in any lease subject to this agreement, regarding the use of the surface by the Lessee therein. Accordingly, the foregoing grant shall only serve to convey the right to use such lands as are necessary for Unit Operations, but shall in all respect require compliance with applicable lease provisions which require cooperation with farming operations on said lands or such other terms and conditions as are specified in the applicable lease agreement.

10.2 Use of Water. Subject to any current restrictions in the applicable oil and gas lease agreements, Working Interest Owners shall have and are hereby granted free use of water that is not dedicated or usable for irrigation purposes from the Unit Areas for Unit Operations, specifically excepting water from any well, lake, pond or irrigation ditch of a Royalty Owner. Unit Operator may bring water onto the premises from sources outside the Unit Area for Unit Operations; however, such imported water may only be used for injection purposes into the Unitized Formation.

10.3 Surface Damages. Working interest Owners shall pay the respective owners thereof for any damage to growing crops, timber, fences, improvements and structures on the Unit Area that result from Unit Operations, in conformance with the terms of the existing oil and gas leases covering the Unit Area.

ARTICLE 11
CHANGES AND AMENDMENTS

11.1 Changes and Amendments. Any change of the Unit Area or any amendment to this Agreement or the Unit Operating Agreement shall be in accordance with K.S.A. 55-1301, *et seq.*, as amended and re-enacted, or by the Working Interest Owners in accordance with the voting procedure of Section 4.3 of the Unit Operating Agreement.

11.2 Determination of Tract Participation. Upon any change of the Unit Area or any amendment to this Agreement or the Unit Operating Agreement, Unit Operator shall determine the Tract Participation of each Tract within the Unit Area, as amended, and shall revise Exhibit A, Exhibit B, and Exhibit C accordingly.

11.3 Effective Date. The effective date of any amendment to the Unit Area shall be 7:00 a.m. Central Standard Time on the first day of the calendar month following: (i) compliance with all conditions for amendment as specified by the Working Interest Owners, (ii) approval of the amendment by the appropriate governmental authority, if required, and (iii) the filing for record of a revised notice of this Agreement in the county or counties in which the original notice of Agreement is recorded.

ARTICLE 12
RELATIONSHIPS OF PERSONS

12.1 No Partnership. The duties, obligations and liabilities of the Persons 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, trust, partnership, or joint venture, or to impose a partnership duty, obligation or liability with regard to any one or more of the Persons hereto. Each Person 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 Costs. This Agreement is not intended to impose, and shall not be construed to impose, an obligation upon any Royalty Owner to pay any Unit Expense unless such Royalty Owner is otherwise so obligated.

12.4 Information to Royalty Owners. Each Royalty Owner shall be entitled to all information in possession of Unit Operator to which such Royalty Owner is entitled by an existing agreement with any Working Interest Owner.

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 and shall be construed in accordance with the laws of the State of Kansas.

ARTICLE 14
FORCE MAJEURE

14.1 Force Majeure. All obligations imposed by this Agreement on each Person, except for the payment of money, shall be suspended while compliance is prevented, in whole or in part, by a labor dispute, fire, war, civil disturbance, act of God; by federal, state or municipal laws; by any rule, regulation or order of a governmental agency; by inability to secure materials; or by any other cause or causes, whether similar or dissimilar, beyond reasonable control of the party. No Person shall be required against his will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other instrument subject hereto shall be terminated by reason of suspension of Unit Operations due to anyone or more of the causes set forth in this Article.

ARTICLE 15
EFFECTIVE DATE

15.1 Effective Date. This Unit Agreement shall be effective the first day of the month next following the date that all the Working Interest Owners and all of the Royalty Owners have executed this Agreement, a counterpart thereof or a Ratification of this Agreement; or if the effectiveness of the

Unit is otherwise subject to the approval of the Kansas Corporation Commission, then the Unit and the Unit Agreement will become effective as of the effective date of the Order of the Corporation Commission pursuant to K.S.A. 55-1301, *et seq.*, providing for Unit Operations.

15.2 Certificate of Effectiveness. Unit Operator shall file for record in the county in which the land affected is located a certificate as required by K.S.A. 55-1313.

ARTICLE 16

TERM

16.1 Term. The term of this Agreement shall commence as of the Effective Date and continue for the time that Unitized Substances are produced in paying quantities or other Unit Operations are conducted without a cessation of more than one hundred eighty (180) days, unless sooner terminated by Working Interest Owners in the manner herein provided.

16.2 Termination by Working Interest Owners. This Agreement may be terminated at any time by Working Interest Owners owning a combined Unit Participation of eighty-five percent (85%) or more, whenever such Working Interest Owners determine that Unit Operations will not be or 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 or required by the leases or other instruments affecting each Tract, Royalty Owners hereby grant Working Interest Owners 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 file for record in the county or counties in which the land affected is located a certificate that this Agreement has terminated, stating its termination date.

ARTICLE 17

APPROVAL

17.1 Original Counterpart or Other Instrument An owner of Oil and Gas Rights may approve this Agreement by signing the original of this instrument, a counterpart thereof or other instrument approving or ratifying this instrument. The signing of any such instrument shall have the same effect as if all Persons had signed the same instrument.

17.2 Joinder in Dual Capacity. Execution as herein provided by any Person as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such Person and any additional interest thereafter acquired.

ARTICLE 18

GENERAL

18.1 Amendments Affecting Working Interest Owners. Amendments hereto relating wholly to Working Interest Owners may be made if signed by all Working Interest Owners.

18.2 Action by Working Interest Owners. Except as otherwise provided in this Agreement, any action or approval required by Working Interest Owners hereunder shall be in accordance with the provisions of the Unit Operating Agreement.

18.3 Lien and Security Interest of Unit Operator. Unit Operator shall have a lien upon and a security interest in the interests of Working Interest Owners in the Unit as provided in the Unit Operating Agreement.

18.4 Conflicts. To the extent the provisions of any existing agreement between the parties relating to the Unit Area conflicts with the provisions of this Agreement, this Agreement shall control. If there is any conflict between this Agreement and the Unit Operating Agreement, this Agreement shall control.

ARTICLE 19

SUCCESSORS AND ASSIGNS

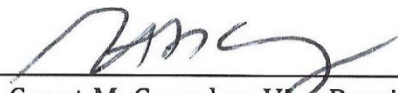
19.1 Successors and Assigns. This Agreement shall extend to, be binding upon, and inure to the benefit of the Persons hereto and their respective heirs, devisees, legal representatives, successors and assigns and shall constitute a covenant running with the lands, leases and interests covered hereby.

EXECUTED this Agreement on the 10th day of April, 2023.

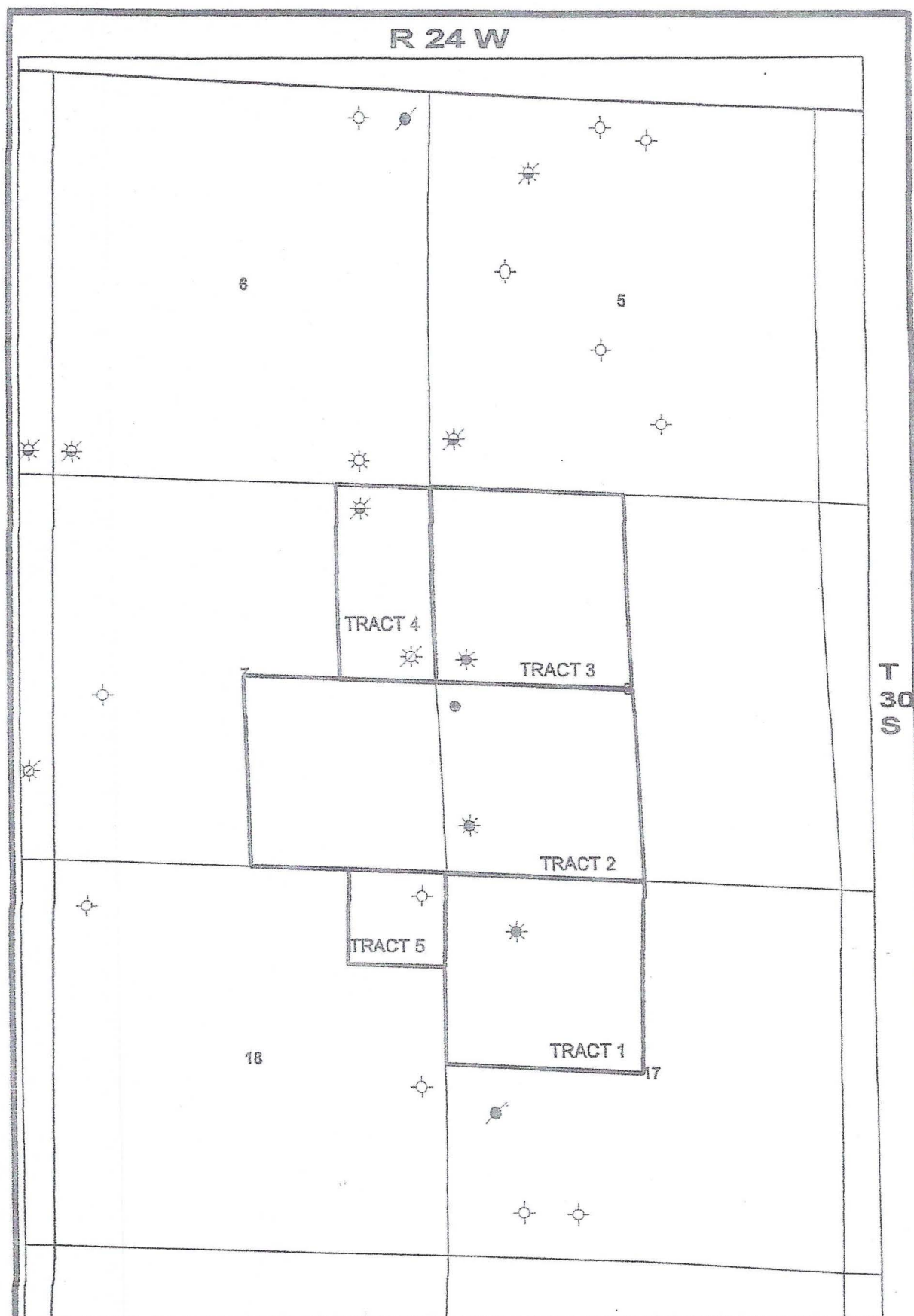
UNIT OPERATOR

CANADAY OIL CORPORATION

By: _____



Grant M. Canaday, Vice President



LEGEND

Well Status

- D&A
- ☼ GAS
- ☼ O&G
- OIL
- ☼ PI&GAS
- ☼ PI&O&G

CANADAY OIL CORPORATION

Irons Morrow Sand Unit
Clark County, Kansas T30S-R24W
TRACT MAP

Clark County, Ks
T30S-R24W

SCALE: 1" = 1550'

Date: 02-26-2015

N

EXHIBIT 'B'

**Unit Agreement
dated**

January 10, 2023

**IRONS MORROW SAND UNIT
Clark County, Kansas**

UNIT AREA

Section-T-R

Tract 1	Northwest Quarter	17 - 30S - 24W
Tract 2	Southwest Quarter Southeast Quarter	8 - 30S - 24W and 7 - 30S - 24W
Tract 3	Northwest Quarter	8 - 30S - 24W
Tract 4	East Half of the Northeast Quarter	7 - 30S - 24W
Tract 5	Northeast Quarter of the Northwest Quarter	18 - 30S - 24W

All in Clark County, Kansas

EXHIBIT "C"
UNIT AGREEMENT
IRONS MORROW SAND UNIT

		NW/4 17-T30S-R24W		SE/4 7-T30S-R24W & SW/4 8-T30S-R24W		NW/4 8-T30S-R24W		E/2 NE/4 7-T30S-R24W		NE/4 NE/4 18-T30S-R24W		Tract Factors	
OWNERSHIP		Unit Tract 1 Factor 0.119100		Unit Tract 2 Factor 0.490800		Unit Tract 3 Factor 0.267500		Unit Tract 4 Factor 0.119100		Unit Tract 5 Factor 0.003500		Totaled = 1.00000000	
		GW	NRI / RI / ORRI	GW	NRI / RI / ORRI	GW	NRI / RI / ORRI	GW	NRI / RI / ORRI	GW	NRI / RI / ORRI	UNIT GW'S	UNIT NRI / RI / ORRI
		Karen Lee Byerley Revocable Trust	GW NRI RI	0.05955000 0.05210625 0.00744375								0.05955000	0.05210625 0.00744375
Louise Ann West	GW NRI RI	0.05955000	0.05210625 0.00744375									0.05955000	0.05210625 0.00744375
Dana Homan Trust	GW NRI			0.36810000	0.29957534	0.20062500	0.16300781	0.08932500	0.07815938			0.65805000	0.54074313
Lucinda Brothers	GW NRI			0.04090000	0.03328622	0.02229167	0.01811198	0.00992500	0.00868438			0.07311667	0.06008257
Grant Canaday	GW NRI			0.04090000	0.03328622	0.02229167	0.01811198	0.00992500	0.00868438			0.07311667	0.06008257
Patrick Canaday	GW NRI			0.03578750	0.02912544	0.01950521	0.01584798	0.00868438	0.00753883			0.06397708	0.05257225
Cade Canaday	GW NRI			0.00511250	0.00416078	0.00278646	0.00226400	0.00124063	0.00108555			0.00913958	0.00751032
B&F Family LP	RI			0.01533750	0.01533750		0.01671875						0.01533750
Billy Irons	RI			0.01533750	0.01533750		0.01671875						0.03205625
Kerry Irons	RI			0.01533750	0.01533750		0.01671875						0.03205625
Derby Rock LLC	RI			0.01533750	0.01533750		0.01671875						0.03205625
Richard Saenz	ORRI			0.01717800	0.01717800								0.01717800
Preston Saenz Trust	ORRI			0.00430800	0.00430800								0.00430800
Preston Saenz Jr	ORRI			0.00245400	0.00245400								0.00245400
Pat Seal Revocable Trust	ORRI			0.00547541	0.00547541								0.00547541
Cannon Family Investments Inc	RI							0.01488750					0.01488750
John Bair	GW NRI RI									0.00070000	0.00061250 0.00008750	0.00070000	0.00061250 0.00008750
Linda & Edward Mahieu	GW NRI RI									0.00070000	0.00061250 0.00008750	0.00070000	0.00061250 0.00008750
Mark & Michelle Mahieu	GW NRI RI									0.00070000	0.00061250 0.00008750	0.00070000	0.00061250 0.00008750
O'Brien Family Trust of 2011 dated July 22, 2011	GW NRI RI									0.00140000	0.00122500 0.00017500	0.00140000	0.00122500 0.00017500
TOTALS:		0.11910000	0.11910000	0.49080000	0.49080000	0.26750000	0.26750000	0.11910000	0.11910000	0.00350000	0.00350000	1.00000000	1.00000000

FINAL PRINT		Schlumberger		COMPENSATED NEUTRON FORMATION DENSITY	
C		COMPANY VERN JONES			
		WELL IRONS 1-B			
		FIELD WELDCAT			
		COUNTY CLARK		STATE KANSAS	
		LOGS 200' FSL & 240' FSL		Other Services CAL/SFL W/GR LDT/CAL W/GR	
		APR SERIAL NO. 025-21 013	SECT. 8	TWP. 30 S	RANGE 24 W
Permanent Datum		02	Dev.	2530.0 F	Dev. 2534.0 F
Log Measured From		02	Dev.	2530.0 F	Dev. 2534.0 F
Drilling Measured From		02	Dev.	2530.0 F	Dev. 2534.0 F
Date		23-JUL-82			
Run No.		ONE			
Depth Bottom		5400.0 F			
Depth Logger (feet)		5400.0 F			
Run Log Interval		5400.0 F			
Top Log Interval		4300.0 F			
Casing Bottom		5 1/2" 5400.0 F			
Casing Logger		5400 F			
Bit Size		12 1/4" 7 7/8"			
Type Fluid in Hole		CHEMICAL			
Temp.		200 LB/2 42.0 S			
FSL Loss		0A 24 C3			
Source of Sample		FLOWLINE			
Run 8 Mass. Temp.		432 CHANE 8 80.0 DEG			
Run 8 Mass. Temp.		232 CHANE 8 74.0 DEG			
Run 8 Mass. Temp.		572 CHANE 8 74.0 DEG			
Casing Run Time		MEAS CALC			
Run 8 SWT		208 CHANE 8 56. DEG			
Casing Run Time		1350 7-33			
Log on Bottom		0753 7-33			
240' Run Temp.		25. DEG			
Casing Location		2324 LIBERAL			
Recorded By		TERRY NOTTOW			
Checked By		JONES & SAE			

RECEIVED
STATE COMMISSION
SEP 10 1982
CONSERVATION DIVISION
Topeka, Kansas

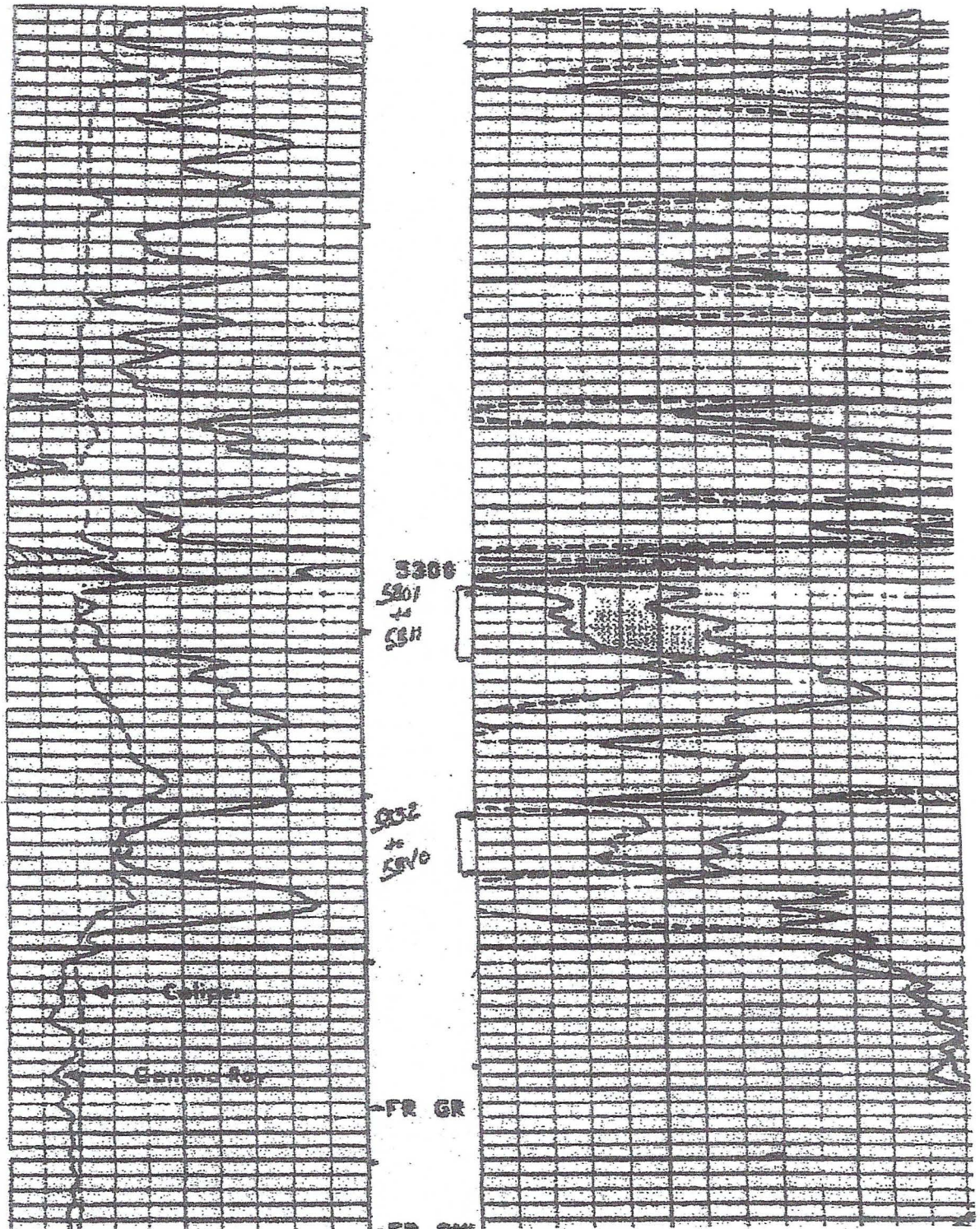
**TIGHT
TIGHT
HOLE**

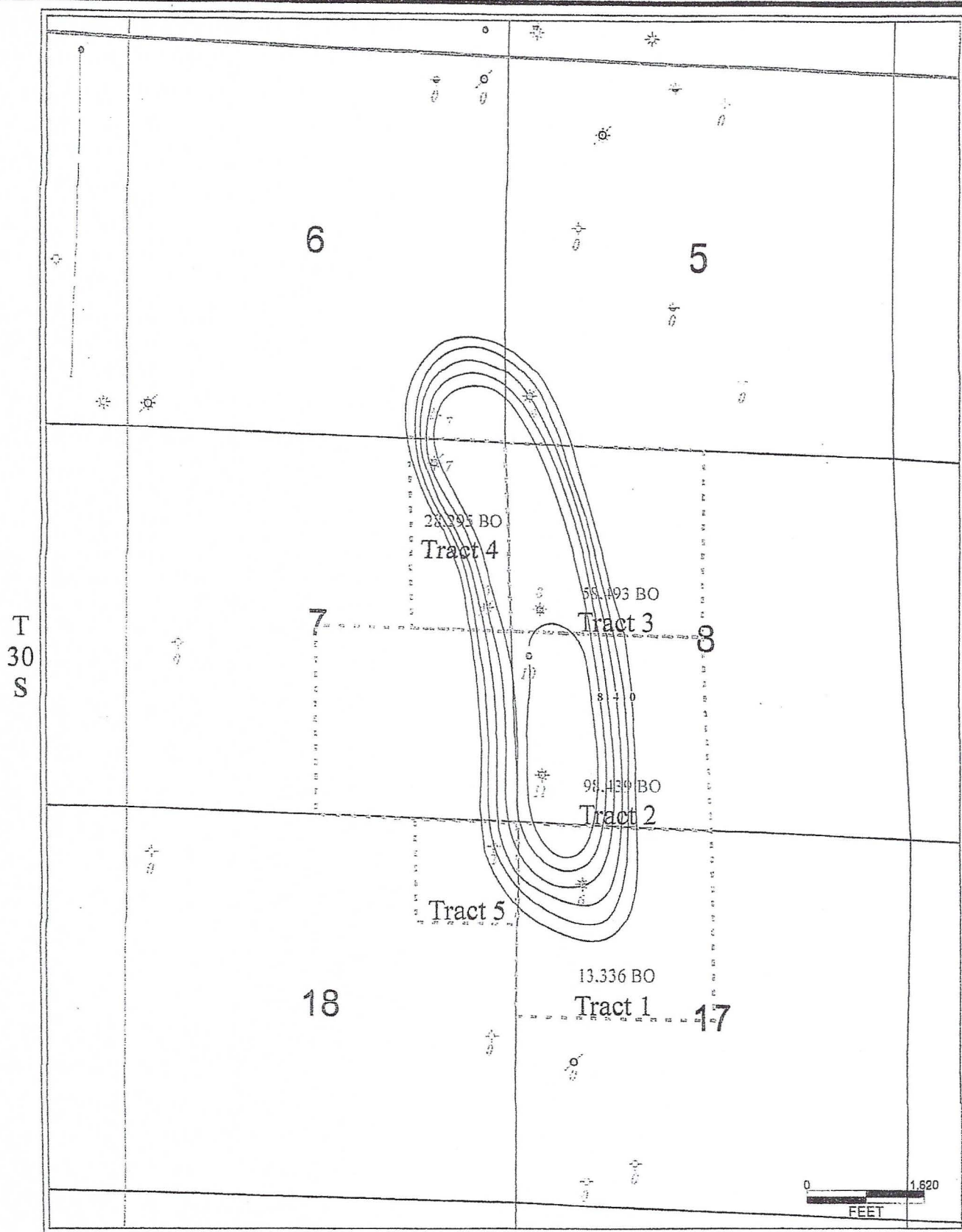
The well name, location and borehole reference data were furnished by the customer.

All interpretations are opinions based on information from description or other measurements and are not guaranteed. We do not warrant the accuracy of any interpretations, and we shall not, except in the case of gross or willful negligence on our part, be liable or responsible for any loss, damage, or expense incurred or sustained by anyone resulting from any interpretation made by any of our officers, agents or employees. These interpretations are also subject to Clause 6 of our General Terms and Conditions on our last price schedule.

ONE	5400.0	00 F	2530.0 F	2534.0 F
ONE	5400.0	00 F	2530.0 F	2534.0 F

Morrow Sand
5301' top





Legend

- Unitized Area
- Producing Well
- Dry Hole
- Water Supply Well
- Injection Well to be Converted

CANADAY OIL CORPORATION

Irons Morrow Sand Unit

Clark County, Kansas T30S-R24W

Morrow Sand Net Pay Isopach Map

C.I. = 2 ft.

TABLE #1
CANADAY OIL CORPORATION
UNIT AGREEMENT
IRONS MORROW SAND UNIT
Clark County, Kansas

Tract	Lease	Primary Oil Production	% Primary	Participation Factor - 50%	Morrow Sand Acre-Ft	% AF	Participation Factor - 30%	Useable Wells	% Wells	Participation Factor - 20%	Total Tract %
1	Byerley	13,336	6.7130	3.360	196.18	11.83	3.55	1	25.00	5.00	11.91
2	Irons Unit	98,535	49.6000	24.800	789.75	47.610000	14.28	2	50.00	10.00	49.08
3	Irons 3-8	58,493	29.4440	14.720	388.93	23.44	7.03	1	25.00	5.00	26.75
4	Oshlo A	28,295	14.2430	7.120	264.88	15.97	4.79	0	0	0	11.91
5	Bair	0	0.0000	0.000	19.11	1.15	0.35	0	0	0	0.35
		198,659	100.000	50.000	1,658.85	100.00	30.00	4	100.0	20.00	100.00

Exhibit B

**to the Application of Application of Canaday Oil Corporation (#5303) for an Order Authorizing
the Unitization and Unit Operation of the Irons Morrow Sand Unit**

UNIT OPERATING AGREEMENT

**UNIT OPERATING AGREEMENT
IRONS MORROW SAND UNIT
CLARK COUNTY, KANSAS**

THIS AGREEMENT, entered into as of the 10th day of April, 2023 by the parties who have signed the original of this instrument, a counterpart thereof or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

WHEREAS, the parties hereto have joined an agreement entitled, "Unit Agreement, Irons Morrow Sand Unit, Clark County, Kansas" (herein referred to as "Unit Agreement") which, among other things, provides for the creation and development of the Unit Area by a secondary recovery project and in furtherance thereof, also provides for a separate agreement to be entered into by the Working Interest Owners to provide specifically for the development and operation of the Unit Area as therein defined.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is provided as follows:

**ARTICLE I
CONFIRMATION OF UNIT AGREEMENT**

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern.

**ARTICLE 2
EXHIBITS**

2.1 Exhibits. The following exhibits are incorporated herein by reference:

2.1.1 Exhibits "A", "B" and "C" of the Unit Agreement.

2.1.2 Exhibit "D", attached hereto, which is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the percentage of total Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner. Exhibit "D", or a revision thereof, shall not be solely conclusive as to the information therein, but it may be used as showing the Unit Participation of each Working Interest Owner for purposes of this Agreement until shown to be in error, or is revised as herein authorized.

2.1.3 Exhibit "E", attached hereto, which is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this Agreement and Exhibit "E", this Agreement shall govern.

2.1.4 Exhibit "F", attached hereto, which contains insurance provisions applicable to Unit Operations.

2.1.5 Exhibit "G", attached hereto, which contains non-discrimination provisions.

2.2 Revision of Exhibits. Whenever Exhibits "A", "B" and "C" are revised, Exhibit "D" shall be revised accordingly, and the effective date for revision shall be the same for each exhibit.

2.3 Reference to Exhibits. Whenever reference is made herein to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

ARTICLE 3
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations. In the exercise of such authority, each Working Interest Owner shall act solely on its own behalf, in the capacity of an individual owner, and not on behalf of the owners as an entirety.

3.2 Specific Authority and Duties. The matters with respect to which Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including the type of recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Unit Operator's Tools and Equipment. The use by Unit Operator of its own tools and equipment in the drilling, reworking or recompletion of a well or in any other operation in which such equipment is required.

3.2.5 Expenditures. The making of any single expenditure in excess of Twenty-five Thousand Dollars (\$25,000.00); however, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefore, and for completing, testing and equipping the well, including necessary flow lines, separators and lease tankage, pumps for injection and any related equipment needed for injection wells; provided further that approval by the Working Interest Owners of a project for securing and delivering water for injection purposes, including filtering, treating and pressuring systems, or a project for construction and installation of a produced water gathering system shall include approval of all necessary expenditures required for the complete construction, installation and efficient operation of all of the foregoing. Where, in connection with any expenditure, whether more or less than Twenty-five Thousand Dollars (\$25,000.00), Unit Operator submits an Authority for Expenditure (A.F.E.) which is approved by at least three (3) Working Interest Owners or their regularly constituted representative having a combined percentage of Unit Participation, as set out in Exhibit "D" of sixty-five percent (65%) or more, such approval shall be binding upon all Working Interest Owners in the same manner as though a meeting had been held and a vote taken in the manner as hereinafter provided for in Section 4.3.2, and any commitments or expenditures thereafter made by Unit Operator on the basis of such approval shall be for the Joint Account.

3.2.6 Disposition of Unit Equipment. The selling or otherwise disposing of any item of surplus Unit Equipment, if the current price of new equipment similar thereto is in excess of Twenty-five Thousand Dollars (\$25,000.00).

3.2.7 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.8 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder, provided that such audits shall:

(a) not be conducted more than once every two years, except upon the removal or resignation of Unit Operator;

(b) be made at the expense of the Working Interest Owners requesting the audit other than the Working Interest Owner designated as Unit Operator, and

(c) be made upon not less than thirty (30) days written notice to Unit Operator.

3.2.9 Inventories. The taking of periodic inventories as provided by Exhibit "E".

3.2.10 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the charges provided by Exhibit "E".

3.2.11 Assignments to Committees. The appointment of committees to study any technical, finance or environmental issues in connection with Unit Operations.

3.2.12 Removal of Operator. The removal of Unit Operator and the selection of a successor.

3.2.13 Changes and Amendments: Border Agreements. The changing of the Unit Area or the amending of this Agreement or the Unit Agreement as provided by Article 11 of the Unit Agreement and authorizing Unit Operator to enter into agreements with adjoining leasehold owners providing for cooperative injection facilities or other issues related to development of the Unit Area where it adjoins other producing leases not included in the Unit Area.

3.2.14 Investment Adjustment. The adjustment and readjustment of investments incurred in Unit Operations.

3.2.15 Termination of Unit Agreement. The termination of the Unit Agreement as provided therein.

ARTICLE 4 **MANNER OF EXERCISING SUPERVISION**

4.1 Designation of Representatives. Each Working Interest Owner shall inform Unit Operator in writing of the name, address and telephone fax number of the representative (and an alternate for such representative) who is authorized to represent and bind such Working Interest Owner with respect to any matter or vote regarding Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than thirty percent (30%). No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall determine all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of two or more Working Interest Owners having a combined voting interest of at least sixty-five percent (65%); provided that, if any one Working Interest Owner has a voting interest in excess of thirty-five percent (35%), and such Owner fails to vote or votes against any matter, then the affirmative vote of Working Interest Owners having ninety-three percent (93%) of the remaining voting interest shall decide the matter; provided further that, in no event shall such an affirmative vote be by less than fifty-one percent (51%) of the total voting interest of all Working Interest Owners.

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter, telegram or fax addressed to the representative of Unit Operator, if such vote is received prior to the vote taken at the meeting. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting prior to being voting on.

4.3.4 Poll Votes. Working Interest Owners may vote by letter, telegram or fax on any matter submitted in writing to all Working Interest Owners. If a meeting is not requested, as provided in Article 4.2, within seven (7) days after a written proposal is received by the Working Interest Owners, the vote taken by letter, telegram or fax shall control. Unit Operator shall give prompt notice of the results of such voting to each Working Interest Owner.

4.3.5 Binding Effect of Vote. All Working Interest Owners shall be bound for their proportionate share of all costs, expenses and other obligations of Unit Operations approved by the Working Interest Owners by the vote required herein.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interests Owners retain all their rights, except as otherwise provided in this Agreement or the Unit Agreement

5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner that requests the information.

5.2.3 Audits. Subject to the provisions of Section 3.2.8, the right to audit the accounts of Unit Operator pertaining to Unit Operations, in accordance with the terms and procedures as set forth in Exhibit "E".

5.3 Reversionary Interests. If a Tract ownership changes due to payout of a reversionary interest (or due to successive or multiple payouts) based on production from a well within the unit, the balance remaining to be recovered will be calculated on an allocated Tract basis after the effective date of the unit. Payout will be deemed to be effective, as between the parties subject to the agreement controlling the payout and the remaining Working Interest Owners, on the first day of the month following the time that the payout balance becomes zero or that payout occurs.

ARTICLE 6 **UNIT OPERATOR**

6.1 Unit Operator. Canaday Oil Corporation is hereby designated as the initial Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time. Unit Operator may not be removed arbitrarily, but upon an affirmative showing of gross negligence, bankruptcy, willful misconduct or malice, then upon the affirmative vote of Working Interest Owners having eighty-five percent (85%) or more of the voting interest after excluding the voting interest of Unit Operator. Such resignation or removal shall not become effective for a period of three (3) months after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period. If Unit Operator sells all of its initial Unit Participation interest, an election of a new Unit Operator is required.

6.3 Selection of Successor. Upon the resignation or removal of Unit Operator, a successor Unit Operator shall be selected by a majority vote of the Working Interest Owners. If a Unit Operator who has been removed fails to vote or votes only to succeed itself, the successor Unit Operator shall be selected by the affirmative vote of Working Interest Owners having eighty percent (85%) or more of the voting interest, after excluding the interest of the Unit Operator who is being removed.

ARTICLE 7 **AUTHORITY AND DUTIES OF UNIT OPERATOR**

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner, as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters that Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages resulting from any act or omission by Unit Operator in conducting Unit Operations, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and the Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except for any liens arising as a result of defaulting Working Interest Owners, due to unpaid Unit Expense; as provided for in Article 11 herein.

7.4 Employees. The number of employees or contractors used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined solely by Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts and records of Unit Operations

7.6 Reports to Working Interest Owners. Unit Operator shall furnish Working Interest Owners monthly reasonably detailed information regarding the nature and amounts of costs and expenses chargeable to the Working Interest Owners, plus timely filed copies of reports of production and injection required periodically by any governmental agency.

7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.8 Engineering and Geological Information. Unit Operator shall furnish to all Working Interest Owners a copy of all logs and other engineering and geological data obtained by Operator and pertaining to wells drilled as a result of Unit Operations, except for Working Interest Owners who are delinquent or are in default with respect to paying their share of Unit Expenses. As soon as the defaulting or delinquent Working Interest Owner has reimbursed or satisfied the Joint Account with respect to the amounts in default or has otherwise made arrangements for the payment of such amounts to the satisfaction of Unit Operator, then such Working Interest Owner will be entitled to the information to be provided pursuant to this Article 7.8.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty-Five Thousand Dollars (\$25,000.00) without prior approval of Working Interest Owners. In the event of an emergency, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency, the action taken and an estimate of the costs incurred or to be incurred in connection with such emergency.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge thereof should not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area and provided for in the contracts of independent contractors doing work of a similar nature.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary property tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom, provided however, that any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, to protest and resist such assessment. All such property taxes shall be paid by Unit Operator and charged to the joint account. However, if the interest of a Working Interest Owner is subject to any separately assessed tax and said Working Interest Owner pays such separately assessed tax, then said Working Interest Owner shall be given a credit equal to the reduction in taxes to be paid by the Joint Account resulting from such payment.

8.2 Other Taxes. Each Working Interest Owner shall be responsible and liable for and shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or with respect to the production or handling of its share of Unitized Substances.

8.3 Income Tax Election. Notwithstanding any provisions 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, then each Person 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 permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is authorized and directed to execute on behalf of each Person 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 1.761-1(a). Should there be any requirement that each Person hereby affected give further evidence of this election, each such Person 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 Person 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 Unit Area is located or any future income tax law of the United States contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each Person hereby affected shall make such election as may be permitted or required by such laws, and giving the equivalent effect as specified herein. In making the foregoing election, each such person states that the income derived by such Person from Unit Operations can be adequately determined without the computation of partnership taxable income.

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall comply with the Workmen's Compensation Laws of the State of Kansas, comply with Employer's Liability and other insurance as required by the laws of the State of Kansas, and shall carry such other insurance as set forth in Exhibit "F".

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Property Taken Over. Upon the Effective Date, Working Interest owners shall deliver to Unit Operator the following:

- 10.1.1 Wells. All wells completed in the Unitized Formation, as shown on Exhibit "A", whether or not producing now or as of the time of delivery to Unit Operator.
- 10.1.2 Well and Lease Equipment The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells, for each well that Working Interest Owners determine is necessary or desirable for conducting Unit Operations. Working Interest Owners shall have no more than two (2) months after this Unit Operating Agreement becomes effective in which to make such determination, and all such property that is determined to be surplus shall be returned to the Working Interest Owner(s) that delivered same to Unit Operator, in as good condition as received, considering normal wear, and such surplus shall not be considered to have been taken over under this Section.
- 10.1.3 Records. A copy of all production and well records of such wells.

10.2 Inventory and Evaluation. Working Interest Owners shall, at Unit Expense, inventory and evaluate in accordance with the provisions of the Accounting Procedure attached as Exhibit "E" all the personal property taken over for Unit Operations. Such inventory shall include and be limited to those items of equipment normally considered controllable by operators of oil and gas properties as indicated in the "Materials Classification Manual" prepared by the Petroleum Accountants Society of Oklahoma, except those items normally considered non-controllable, such as sucker rods or tubing of sizes less than two inches (2") and other items as agreed upon by the Working Interest Owners may be included on the inventories, provided that same may be used or useful in Unit Operations and their inclusion will insure a more equitable adjustment of investments. All other non-controllable items of lease and well equipment installed with the Unit Area and required in Unit Operations, although excluded from the inventories, shall nevertheless be taken over by the Unit Operator. Immediately following completion, such inventories shall be priced in accordance with the provisions of Exhibit "E", Accounting Procedure, or at an appraised value determined or agreed to by Working Interest Owners; such pricing shall be performed under the supervision of; by the personnel of and in the offices of the Unit Operator, with other Working Interest Owners furnishing such pricing help as may be available and necessary.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all wells and equipment taken over under Article 10.1, and shall be charged with an amount equal to that obtained by multiplying the total value of all wells and equipment taken over under Article 10.1 by each Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described in this Section 10.3

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.5 Ownership of Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation in all wells, equipment and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement. All other lease, well equipment and other personal property not required for Unit Operations and not taken over by the Unit Operator as herein provided shall remain the property of the Working Interest Owner(s) that owned such equipment prior to the establishment of the Unit.

ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay the Unit Expenses. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense in proportion to its respective Unit Participation. All charges, credits and accounting for Unit Expense shall be in accordance with Exhibit "E" and shall be apportioned among and assessed against the Working Interest Owners in proportion to their respective Working Interest Ownership percentages as reflected on Exhibit "D" hereto. Unit Operator shall be responsible for preparing monthly statements of Unit Expenses to be submitted to the Working Interest Owners for payment, in accordance with Exhibit "E".

11.2 Budgets. Before, or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and on or before the first day of each October thereafter, shall prepare such a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Capital Expenditures. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper and reasonable. A copy of each budget and adjusted budget, if any, shall be furnished promptly to each Working Interest Owner.

11.3 Advances. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expenses by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. Funds received by Unit Operator under this Agreement need not be segregated or maintained by it as a separate fund but may be commingled with its own funds

11.5 Unpaid Unit Expense. If any Working Interest Owner fails or is unable to pay its share of Unit Expense within ninety (90) days after rendition of a statement therefore by Unit Operator, the Unit Operator shall, by certified mail, return receipt requested, mail to such defaulting Working Interest Owner a second invoice, notifying such Working Interest Owner that it is in default and that Unit Operator intends to invoke the provisions of either Section 11.5.1 or 11.5.2 if such invoice is not paid within four business days of receipt delivery. Unit Operator may not invoke the provisions of Section 11.5.1 or 11.5.2 if a bona fide good faith dispute exists as to the validity of some or all of the unpaid Unit Expense, provided that such Working Interest Owner shall pay all undisputed amounts within the four-business-day period provided for above and also, within that period, provides Unit Operator with a written notice setting forth, in good faith, the reasons it is disputing the validity of all remaining unpaid Unit Expenses. In the aforementioned second notice, Unit Operator shall designate which one of the following remedies it intends to invoke;

- 11.5.1 Unpaid Amounts Carried by Non-Defaulting Parties: Unit Operator may elect that such unpaid invoice or statement shall bear interest at the rate provided in Section I.3.B, of Exhibit "E", Accounting Procedures. Such unpaid Unit Expenses shall be carried by and paid by all non-defaulting Working Interest Owners in the proportion that the Unit Participation of each bears to the total such Unit Participation of all such non-defaulting Working Interest Owners. The amount carried shall be due and payable out of the proceeds from the defaulting Working Interest Owner's share of Unitized Substances, including, to the extent provided for in the Kansas Unitization Statutes (K.S.A. §55, Art. 13, *et seq.*), overriding royalty interests, oil and gas payments, or other interests in excess of one-eighth (1/8) royalty interest to which such Working Interest Owner's interest is subject. During the time that any Working Interest Owner fails to pay its share of the Unit Expense, the unit Operator without prejudice to other existing remedies shall be entitled to collect and receive directly from the purchaser the proceeds from such Working Interest Owner's share of the Unitized Substances. All credits to any such defaulting Working Interest Owner on account of the sale or other disposal of unit equipment, or otherwise, shall also be applied against the unpaid share of Unit Expense charged against such Working Interest Owner; or

11.5.2 Deemed Non-Consent: Unit Operator may elect to treat such failure to pay the invoice or statement as an election by the defaulting Working Interest Owner to be treated as a Non-Consenting party and the unpaid amounts shall be recovered according to the provisions of Section 11.8 below.

11.6 Security Rights. In addition to any other security rights and remedies provided for by the laws of the State in which the Unit Area is located, with respect to services rendered or materials and equipment furnished under this Agreement, each Working Interest Owner grants to Unit Operator a lien upon the oil and gas rights Owned by each such Working Interest Owner within the Unit Area, including the Unitized Substances attributable thereto, when produced and the Unit Equipment credited thereto, in order to secure payment of the Unit Expense charged against such Working Interest, together with interest thereon at the rate set forth in Exhibit "E" or the maximum rate allowed by law, whichever is less. If any Working Interest Owner does not pay its share of Unit Expense when due, or if any Working Interest Owner elects to be carried or otherwise financed, Unit Operator shall have the right to collect from the purchaser of production, the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed, plus interest at the rate of two percent (2%) above prime rate as established by the Chase Manhattan Bank of New York City, on the last day of the calendar month in which the unpaid balance becomes due or the maximum contract rate permitted by the applicable usury laws, whichever is the lesser, has been paid. Each purchaser of production is hereby authorized and shall be entitled to rely on Unit Operator's statement concerning the amount owed and the interest payable thereon.

11.7 Carved-Out Interests. Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest and created after the Effective Date of this Agreement shall be subject to this Agreement. If a Working Interest Owner does not pay its share of Unit Expense and the proceeds from the sale of unitized Substances under Article 11.6 are insufficient for that purpose, the security rights provided for therein may be applied against the carved-out interests with which such Working Interest is burdened. In such event, the owner of such carved-out interest shall be subrogated to the security rights granted by Article 11.6.

11.8 Non-Consent Provisions. In the event that (a) three (3) or more Working Interest Owners owning a combined voting interest (pursuant to the provisions of Article 4), of more than sixty-five percent (65%), but less than one hundred percent (100%), desire to proceed with a proposed project which under Article 4 requires an affirmative vote of at least sixty-five percent (65%) or more of the voting interests, or (b) in the event that any Working Interest Owner fails to pay for its' share of Unit Expenses when due and Unit Operator elects to treat such defaulting party as a non-consent then the following shall apply: Unit Operator shall cause written notice to be given to all Working Interest Owners of the proposed project or projects, including specific data as to the proposed operation and the estimated cost thereof. The Working Interest Owners failing to agree to the proposed operations shall have a period of thirty (30) days after receipt of such notice in which to elect to join and pay their proportionate share of the costs of such proposed operations. After the expiration of said thirty (30) day period, the Working Interest Owners electing to proceed may so proceed at their sole cost and expense; provided, however, the parties paying the cost of such additional operations shall be entitled to recover from unit production attributable to the interest of the non-paying Working Interest Owners the following amounts:

- 11.8.1 Surface Equipment beyond the Wellhead. Two hundred percent (200%) of the unpaid portion of such Working Interest Owner's share of the cost of aboveground surface equipment beyond the wellhead connection, including, but not limited to, stock tanks, separators, heaters, pumping equipment and piping, plus two hundred percent (200%) of the unpaid portion of such Working Interest Owner's share of the cost of operation of the unit during the period of recovering the costs itemized in this Section 11.8; plus
- 11.8.2 Drilling and Other Operations: Intangibles. Three hundred percent (300%) of the unpaid portion of such Working Interest Owner's share of the costs and expenses of drilling wells in the Unit Area, including, staking, well site preparation, rigging up, or drilling, and reworking, deepening or plugging back, testing and completing said wells; and
- 11.8.3 Underground Pipeline Systems. Injected Substances. Three hundred percent (300%) of the unpaid portion of such Working Interest Owner's share of the costs and expenses of underground pipeline systems, expenses for injected substances and any other nonrecoupable expenses incurred.

All Interest and penalties prescribed under this agreement with respect to recovery of costs shall be paid from the non-paying Working Interest Owner's share of production.

11.9 Pre-Unitization Expense. Prior to effective date, Unit Operator may incur certain costs and expenses for and on behalf of the Working Interest Owners in anticipation of the Unit Agreement and this Agreement becoming effective, including legal fees required during the process of filing an application for approval by the Kansas Corporation Commission and any proceeding related to obtaining such approval. Such costs shall herein be referred to as "Pre-Unitization Expenses". Notwithstanding the fact that such expenses have been incurred prior to the effective date of the Unit, Unit Operator shall, as soon as practicable after the Effective Date of this Agreement, reallocate and invoice such Pre-Unitization Expenses among all Working Interest Owners in accordance with the Unit Participation interest of each such Working Interest Owner.

ARTICLE 12

NONUNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas or other minerals from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner, other than Unit Operator, shall produce Unitized Substances. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not be affected adversely.

ARTICLE 13
TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest set forth opposite its name in Exhibit D, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest; however, such indemnification and liability shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective,

insofar as this Agreement is concerned, as of 7:00 A.M. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

ARTICLE 14
LIABILITY, CLAIMS, AND SUITS

14.1 Individual Liability. The duties, obligations and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association or trust among Working Interest Owners.

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Twenty Thousand Dollars (\$20,000.00), and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall determine the further handling of the claim or suit. All costs and expense of handling, settling or otherwise discharging such claim or suit shall be an item of Unit Expense, subject to such limitation as is set forth in Exhibit "E". If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

14.3 Notice of Loss. Unit Operator shall report to Working Interest Owners as soon as practicable after each occurrence, damage or loss to Unit Equipment, and each accident, occurrence, claim or suit involving third-party bodily injury or property damage not covered by insurance carried or the benefit of Working Interest Owners.

ARTICLE 15
NONDISCRIMINATION

15.1 Nondiscrimination. During the performance of work under this Agreement, Unit Operator agrees to comply with all of the provisions of Subsections (1) through (7) of Section 202, Executive Order 11246 of September 24, 1965, as amended by Executive Order 11375 of October 13, 1967, and as subsequently amended, which are hereby incorporated by reference in this Agreement.

ARTICLE 16
NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail, telegram or telephone facsimile (fax) to the address and/or telephone fax number of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

ARTICLE 17
WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same, and the cost of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided that all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

17.2 Limitation on Withdrawal. Notwithstanding anything set forth in Article 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, earned interest, Carved-Out Interests or any other interest created out of the Working Interest in excess of the applicable lessor's royalty interest as specified in the original oil and gas lease between the withdrawing Working Interest Owner and such lessor(s). If less than all the remaining Working Interest Owners refuse to permit a withdrawal, the Working Interest Owners agreeing to the withdrawal shall have the option to accept the transfer and assignment and agree to accept the Working Interest subject to such burdens, and the parties electing to accept such withdrawn interest shall, provided that any deficiency referred to in Article 17.1 has been paid in full, share same proportionately as to their respective Unit Working Interests.

ARTICLE 18
ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners determine to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, the Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of sixty (60) days after the sending of such notice to notify the Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the net salvage value of the casing and equipment, through the wellhead, in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

18.2 Plugging. If the Working Interest Owners of the applicable Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, as provided in Article 18.1 above, then Unit Operator shall plug and abandon such well in compliance with applicable laws and regulations.

ARTICLE 19
EFFECTIVE DATE AND TERM

19.1 Effective Date. This Agreement shall become effective when the Unit Agreement becomes effective.

19.2 Term. This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 18; (b) all Unit Equipment and property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; (c) all amounts owed to Unit Operator by any party have been fully paid, including accrued interest; and (d) there has been a final accounting.

ARTICLE 20
ABANDONMENT OF OPERATIONS

20.1 Termination. Upon termination of the Unit Agreement, the following will occur:

- 20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts and other instruments affecting the separate Tracts.
- 20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and to continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners, of the casing and equipment, through the wellhead, in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

- 20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.
- 20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.
- 20.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof in proportion to their Unit Participations.

ARTICLE 21
APPROVAL

21.1 Original Counterpart or Other instrument. An owner of a Working Interest may approve this Agreement by signing the original, a counterpart thereof or other instrument approving this Agreement the signing of any such instrument shall have the same effect as if all Parties had signed the same instrument.

ARTICLE 22
SUCCESSORS AND ASSIGNS

22.1 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.

ARTICLE 26
UNLEASED INTERESTS

26.1 Treated as Leased. If a Working Interest Owner owns fee to all or a part of the Oil and Gas Rights in any Tract which are not subject to an oil and gas lease, or other contract in the nature thereof, such Working Interest Owner shall be deemed to own a Working Interest in such Tract to the extent of seven-eighths (7/8) of its interest therein and a Royalty Interest with respect to the remaining one-eighth (1/8) interest therein.

ARTICLE 22
JOINDER IN DUAL CAPACITY

22.1 Joinder in Dual Capacity. If a party owns both a Working Interest and a Royalty Interest, it shall not be necessary for such party to execute this Agreement in both capacities to commit both classes of interests. Execution by any such party in one capacity shall also constitute execution in the other capacity.

[Signatures on the following page.]

IN WITNESS WHEREOF, this Agreement is approved on the dates opposite the respective signatures set forth below.

UNIT OPERATOR

CANADAY OIL COMPANY

By: _____
G. M. Canaday, Vice President

WORKING INTEREST OWNERS

By: _____

Date: _____

By: _____

Date: _____

By: _____

Date: _____

By: _____

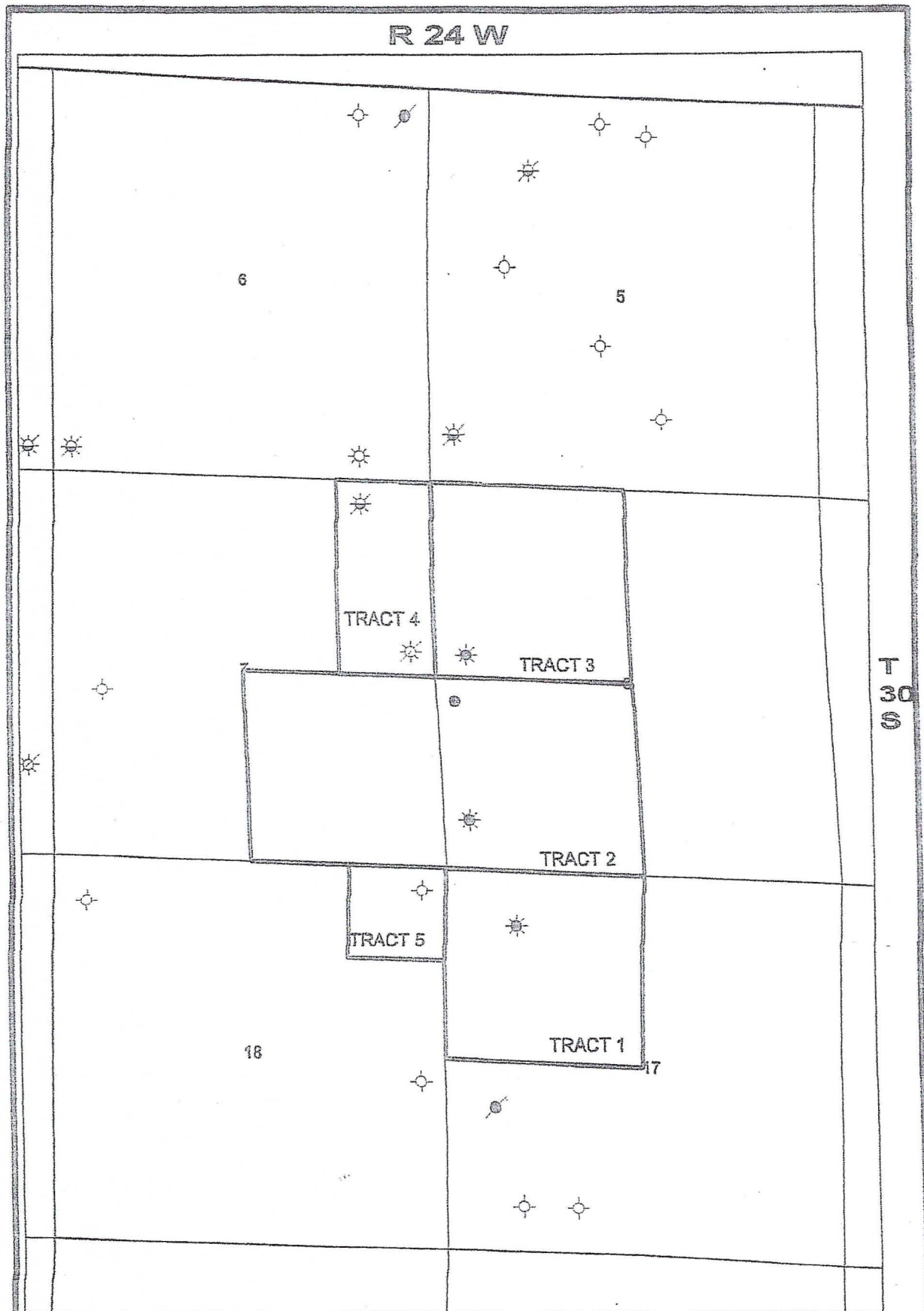
Date: _____

By: _____

Date: _____

By: _____

Date: _____



LEGEND

Well Status

D&A

GAS

O&G

OIL

P/GAS

P/O&G

CANADAY OIL CORPORATION

Irons Morrow Sand Unit
Clark County, Kansas T30S-R24W
TRACT MAP

Clark County, Ks
T30S-R24W

SCALE: 1" = 1550'

Date: 02-26-2015

N

EXHIBIT 'B'

**Unit Agreement
dated
January 10, 2023**

**IRONS MORROW SAND UNIT
Clark County, Kansas**

UNIT AREA

Section-T-R

Tract 1	Northwest Quarter	17 - 30S - 24W
Tract 2	Southwest Quarter Southeast Quarter	8 - 30S - 24W and 7 - 30S - 24W
Tract 3	Northwest Quarter	8 - 30S - 24W
Tract 4	East Half of the Northeast Quarter	7 - 30S - 24W
Tract 5	Northeast Quarter of the Northeast Quarter	18 - 30S - 24W

All in Clark County, Kansas

EXHIBIT "C"
UNIT OPERATING AGREEMENT
IRONS MORROW SAND UNIT

		NW/4 17-T30S-R24W		SE/4 7-T30S-R24W & SW/4 8-T30S-R24W		NW/4 8-T30S-R24W		E/2 NE/4 7-T30S-R24W		NE/4 NE/4 18-T30S-R24W		Tract Factors	
OWNERSHIP		Unit Tract 1 Factor 0.119100		Unit Tract 2 Factor 0.490800		Unit Tract 3 Factor 0.267500		Unit Tract 4 Factor 0.119100		Unit Tract 5 Factor 0.003500		Totaled = 1.00000000	
		GW/	NRI / RI / ORRI	GW/	NRI / RI / ORRI	GW/	NRI / RI / ORRI	GW/	NRI / RI / ORRI	GW/	NRI / RI / ORRI	UNIT GW'S	UNIT NRI / RI / ORRI
Karen Lee Byerley Revocable Trust	GW/	0.05955000										0.05955000	
	NRI		0.05210625										0.05210625
	RI		0.00744375										0.00744375
Louise Ann West	GW/	0.05955000										0.05955000	
	NRI		0.05210625										0.05210625
	RI		0.00744375										0.00744375
Dana Homan Trust	GW/			0.36810000		0.20062500		0.08932500				0.65805000	
	NRI			0.29957534		0.16300781		0.07815938					0.54074313
Lucinda Brothers	GW/			0.04090000		0.02229167		0.00992500				0.07311667	
	NRI			0.03328622		0.01811198		0.00868438					0.06008257
Grant Canaday	GW/			0.04090000		0.02229167		0.00992500				0.07311667	
	NRI			0.03328622		0.01811198		0.00868438					0.06008257
Patrick Canaday	GW/			0.03578750		0.01950521		0.00868438				0.06397708	
	NRI			0.02912544		0.01584798		0.00753883					0.05257225
Cade Canaday	GW/			0.00511250		0.00278646		0.00124063				0.00913958	
	NRI			0.00416078		0.00226400		0.00108555					0.00751032
B&F Family LP	RI			0.01533750									0.01533750
Billy Irons	RI			0.01533750		0.01671875							0.03205625
Kerry Irons	RI			0.01533750		0.01671875							0.03205625
Derby Rock LLC	RI			0.01533750		0.01671875							0.03205625
Richard Saenz	ORRI			0.01717800									0.01717800
Preston Saenz Trust	ORRI			0.00430800									0.00430800
Preston Saenz Jr	ORRI			0.00245400									0.00245400
Pat Seal Revocable Trust	ORRI			0.00547541									0.00547541
Cannon Family Investments Inc	RI							0.01488750					0.01488750
John Bair	GW/									0.00070000		0.00070000	
	NRI									0.00061250			0.00061250
	RI									0.00008750			0.00008750
Linda & Edward Mahieu	GW/									0.00070000		0.00070000	
	NRI									0.00061250			0.00061250
	RI									0.00008750			0.00008750
Mark & Michelle Mahieu	GW/									0.00070000		0.00070000	
	NRI									0.00061250			0.00061250
	RI									0.00008750			0.00008750
O'Brien Family Trust of 2011 dated July 22, 2011	GW/									0.00140000		0.00140000	
	NRI									0.00122500			0.00122500
	RI									0.00017500			0.00017500
TOTALS:		0.11910000	0.11910000	0.49080000	0.49080000	0.26750000	0.26750000	0.11910000	0.11910000	0.00350000	0.00350000	1.00000000	1.00000000

EXHIBIT "D"
UNIT OPERATING AGREEMENT
IRONS MORROW SAND UNIT

	NW/4 17-T30S-R24W		SE/4 7-T30S-R24W & SW/4 8-T30S-R24W		NW/4 8-T30S-R24W		E/2 NE/4 7-T30S-R24W		NE/4 NE/4 18-T30S-R24W		Tract Factors
OWNERSHIP	Unit Tract 1 Factor 0.119100		Unit Tract 2 Factor 0.490800		Unit Tract 3 Factor 0.267500		Unit Tract 4 Factor 0.119100		Unit Tract 5 Factor 0.003500		Totaled = 1.00000000
	GW	Unit WI	GW	Unit WI	GW	Unit WI	GW	Unit WI	GW	Unit WI	UNIT GW'S
	0.50000000	0.05955000									0.05955000
Karen Lee Byerley Revocable Trust	0.50000000	0.05955000									0.05955000
Louise Ann West											0.05955000
Dana Homan Trust			0.75000000	0.36810000	0.75000000	0.20062500	0.75000000	0.08932500			0.65805000
Lucinda Brothers			0.08333333	0.04090000	0.08333333	0.02229167	0.08333333	0.00992500			0.07311667
Grant Canaday			0.08333333	0.04090000	0.08333333	0.02229167	0.08333333	0.00992500			0.07311667
Patrick Canaday			0.072916667	0.03578750	0.072916667	0.01950521	0.072916667	0.00868437			0.06397708
Cade Canaday			0.010416667	0.00511250	0.010416667	0.00278646	0.010416667	0.00124062			0.00913958
John Bair									0.20000000	0.00070000	0.00070000
Linda & Edward Mahieu									0.20000000	0.00070000	0.00070000
Mark & Michelle Mahieu									0.20000000	0.00070000	0.00070000
O'Brien Family Trust of 2011 dated July 22, 2011									0.40000000	0.00140000	0.00140000
TOTALS:	1.00000000	0.11910000	1.00000000	0.49080000	1.00000000	0.26750000	1.00000000	0.11910000	1.00000000	0.00350000	1.00000000

UNIT OPERATING AGREEMENT IRONS MORROW SAND UNIT

EXHIBIT 'D'

Owner	WI in Tract Decimal Interest	Tract Factor x WI	Unit Participation Decimal Interest
<u>Tract 1</u>			
Louise West	0.5000000	0.0595500	
Karen Byerly	0.5000000	0.0595500	
<u>Tract 2</u>			
Dana Homan Trust	0.7500000	0.3681000	
Lucinda Brothers Full	0.8333000	0.0409000	
Grant Canaday	0.8333000	0.0409000	
Patrick Canaday	0.7292000	0.0357900	
Cade Canaday	0.1042000	0.0051100	
<u>Tract 3</u>			
Dana Homan Trust	0.7500000	0.2006200	
Lucinda Brothers Full	0.8333000	0.0222900	
Grant Canaday	0.8333000	0.0222900	
Patrick Canaday	0.7292000	0.0195100	
Cade Canaday	0.1042000	0.0027900	
<u>Tract 4</u>			
Dana Homan Trust	0.7500000	0.0089330	
Lucinda Brothers Full	0.8333000	0.0099200	
Grant Canaday	0.8333000	0.0099200	
Patrick Canaday	0.7292000	0.0086800	
Cade Canaday	0.1042000	0.0012500	
<u>Tract 5</u>			
Other	1.0000000	0.0025000	
<u>Unit Owner</u>			
Louise West		0.0595500	
Karen Byerly		0.0595500	
Dana Homan Trust		0.6580500	
Lucinda Brothers Full		0.0731100	
Grant Canaday		0.0731100	
Patrick Canaday		0.0639800	
Cade Canaday		0.0091500	
Other		0.0035000	
		1.0000000	

Exhibit "E"

ACCOUNTING PROCEDURE JOINT OPERATIONS

1 Attached to and made part of PLAN of UNITIZATION
2 IRONS MORROW SAND UNIT CLARK COUNTY, KANSAS
3 _____
4 _____
5 _____

I. GENERAL PROVISIONS

8 IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT ALL THE
9 COMPETING "ALTERNATIVE" PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE
10 BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.
11

12 IN THE EVENT THAT ANY "OPTIONAL" PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE
13 PARTIES TO THE AGREEMENT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION, SUCH PROVISION SHALL NOT
14 FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT
15 OF THE PARTIES IN SUCH EVENT.
16

1. DEFINITIONS

18 All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:
19

21 "Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this
22 definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities
23 of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an
24 individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.
25

26 "Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting
27 Procedure is attached.
28

29 "Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified
30 in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).
31

32 "Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest
33 Railway Receiving Point to the property.
34

35 "Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.
36

37 "Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is
38 to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable
39 field personnel.
40

41 "First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's
42 field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may
43 include, but are not limited to:
44

- 45 • Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance,
46 construction, well remedial work, equipment movement and drilling
- 47 • Responsibility for day-to-day direct oversight of rig operations
- 48 • Responsibility for day-to-day direct oversight of construction operations
- 49 • Coordination of job priorities and approval of work procedures
- 50 • Responsibility for optimal resource utilization (equipment, Materials, personnel)
- 51 • Responsibility for meeting production and field operating expense targets
- 52 • Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental
53 part of the supervisor's operating responsibilities
- 54 • Responsibility for all emergency responses with field staff
- 55 • Responsibility for implementing safety and environmental practices
- 56 • Responsibility for field adherence to company policy
- 57 • Responsibility for employment decisions and performance appraisals for field personnel
- 58 • Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group
59 or team leaders.
60

61 "Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be
62 shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.
63

64 "Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection,
65 maintenance, repair, abandonment, and restoration of the Joint Property.
66

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

2
3 "Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other
4 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions
5 contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted,
6 promulgated or issued.

7
8 "Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.

9
10 "Non-Operators" means the Parties to the Agreement other than the Operator.

11
12 "Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and
13 gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,
14 heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of
15 offshore operations, all of which are located offshore.

16
17 "Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.

18
19 "On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of
20 Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other
21 facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.

22
23 "Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.

24
25 "Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as
26 "Party."

27
28 "Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees,
29 or is otherwise obligated, to pay and bear.

30
31 "Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of
32 the costs and risks of conducting an operation under the Agreement.

33
34 "Personal Expenses" means reimbursed costs for travel and temporary living expenses.

35
36 "Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual
37 railhead may not exist.

38
39 "Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a
40 receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication,
41 scheduling and dispatching center; and other associated functions serving the Joint Property.

42
43 "Supply Store" means a recognized source or common stock point for a given Material item.

44
45 "Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by
46 engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint
47 Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second
48 paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-
49 Operator, Non-Operator Affiliates, and/or third parties.

50 51 2. STATEMENTS AND BILLINGS

52
53 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
54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all
55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified
56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.
57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.

58
59 The Operator may make available to Non-Operators any statements and bills required under Section 1.2 and/or Section 1.3.A (*Advances*
60 *and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper
61 copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and
62 bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of
63 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via
64 email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings
65 electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written
66 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 1.4 (*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 1.5 (*Expenditure Audits*).
- B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section 1.4.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 1.4 (*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 1.4.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 1.5.B or 1.5.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 1.5.B or 1.5.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 1.3.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 1.5.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 1.3.B (Advances and Payments by the Parties).

D. If any Party fails to meet the deadlines in Sections 1.5.B or 1.5.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 1.5.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.

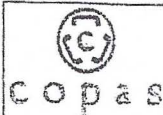
E. ☐ (Optional Provision - Forfeiture Penalties)

If the Non-Operators fail to meet the deadline in Section 1.5.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 1.5.B or 1.5.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 1.6.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 1.6.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 Two (2) or more Parties, one of which is the Operator, having a combined working interest of at least Sixty-Five percent (65 %), 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 1.6.A and 1.6.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 1.6.A, if a Non-Operator is an Affiliate of the Operator, votes under Section 1.6.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 11.6 (*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 11.2.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 11.2.A who are foreign nationals shall not exceed comparable compensation paid to an equivalent U.S. employee pursuant to this Section 11.2, unless otherwise approved by the Parties pursuant to Section 1.6.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 11.2.A, excluding severance payments or other termination allowances. Such costs under this Section 11.2.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 11.2.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 11.2.A and B.

- 1 D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the
2 expenses are incurred in connection with directly chargeable activities.
- 3
- 4 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the
5 Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a
6 Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation
7 costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the
8 Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).
- 9
- 10 F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and
11 wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal
12 Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly
13 benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are
14 available.
- 15
- 16 G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable
17 to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account
18 under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most
19 recently recommended by COPAS.
- 20
- 21 H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose
22 salaries and wages are chargeable under Section II.2.A.

23 3. MATERIAL

24
25 Material purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section
26 IV (*Material Purchases, Transfers, and Dispositions*). Only such Material shall be purchased for or transferred to the Joint Property as
27 may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation
28 of surplus stocks shall be avoided.

30 4. TRANSPORTATION

- 31 A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.
- 32
- 33 B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point
34 to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material
35 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
36 methods listed below:
37
38 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a
39 theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per
40 hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall
41 consistently apply the selected alternative.
42
43 (2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial
44 charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged
45 directly to the Joint Property and shall not be included when calculating the Equalized Freight.
46
47

48 5. SERVICES

49
50 The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and
51 utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to
52 contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").
53

54 The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).
55

56 6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

57
58 In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:
59

- 60 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to
61 production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership
62 and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who
63 are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense,
64 insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation
65 not to exceed _____ percent (____%) per annum; provided, however, depreciation shall not be charged when the
66

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 \$ 25,000. 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 \$ _____ 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, re-drilling, 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 \$ 5,000 (prorated for less than a full month)

Producing Well Rate per month \$ 400.00

- (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) _____% of total costs if such costs are less than \$100,000; plus
- (2) _____% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- (3) _____% 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) _____% of total costs if such costs are less than \$100,000; plus
- (2) _____% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- (3) _____% 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.6.13 (*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 1.6.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 'F'

**UNIT OPERATING AGREEMENT
CANADAY OIL CORPORATION**

**IRONS MORROW SAND UNIT
CLARK COUNTY, KANSAS**

INSURANCE

Operator shall carry or provide the following insurance for the benefit of the joint account.

1. Insurance which shall comply with the Workmen's Compensation and Employer's Liability Laws of the State of Kansas.
2. Commercial General Liability Insurance with a minimum coverage of \$1,000,000.
3. Commercial Automobile Insurance with a minimum coverage of \$1,000,000.
4. Operator reserves the right to purchase such other insurance coverage as is deemed necessary.

EXHIBIT "G"

UNIT OPERATING AGREEMENT CANADAY OIL CORPORATION

NON-DISCRIMINATION POLICY

It is the policy and commitment of Canaday Oil Corporation that it does not discriminate on the basis of race, age, color, sex, national origin, physical or mental disability or religion.

Canaday Oil Corporation is committed to a policy of equal employment opportunity and does not discriminate in the terms, conditions, or privileges of employment on account of race, age, color, sex, national origin, physical or mental disability, or religion or otherwise as may be prohibited by federal and state law.

Exhibit C

**to the Application of Application of Canaday Oil Corporation (#5303) for an Order Authorizing
the Unitization and Unit Operation of the Irons Morrow Sand Unit**

INTERESTED OWNERS

Lucinda Ann Brothers-Full 16801 Valderama Way Edmond, OK 73012	Dana M. Homan Living Trust dated 5/20/2011 5407 W. 99 th Terrace Overland Park, KS 66207
Patrick Timothy Canaday 6357 N. Campos Lane Wichita, KS 67204	Grant Michael Canaday 501 W. 77 th Street Tulsa, OK 74132
Karen Lee Byerley Revocable Trust dated 7.1.2019 7605 Derek Drive Raleigh, NC 27613	Cade Patrick Canaday 1418 N. Decker Street Wichita, KS 67235
B & F Family Limited Partnership c/o Linda K. Barnes PO Box 5 Minneola, KS 67865	Louise Ann West PO Box 475 Minneola, KS 67865
Kerry Irons 2712 Cresthill Circle Waco, TX 76710	Derby Rock LLC c/o Darren Irons 2001 Worthington Lane Edmond, OK 73013
Cannon Family Investments Inc. c/o Patrick J. Cannon PO Box 273 Onalaska, WI 54650	Billy Irons 4001 NE Channel Drive Lee's Summit, MO 64064
Linda & Edward Mahieu 1962 FM 400 Plainview, TX 79072	John Blair 5205 W. 95 th Terrace, #111 Overland Park, KS 66207
O'Brien Family Trust of 2011 dated July 22, 2011 c/o John A. O'Brien Jr. 101 Wakefield St. Reading, MA 01867	Mark & Michelle Mahieu 304 CR 7 Minneola, KS 67865