

JUL 09 2014

LEGAL SECTION

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION)	
OF LINN OPERATING, INC. FOR AN)	DOCKET NO. 15-CONS- <u>037</u> -CUNI
ORDER PROVIDING FOR THE)	
UNITIZATION AND UNIT OPERATION OF)	
A PART OF THE HUGOTON AND)	
PANOMA COUNCIL GROVE GAS FIELDS)	
IN THE ALTERNATE TRACT UNIT)	
DESCRIBED AS SECTION 35-27S-39W)	OPERATOR NO. 33999
(SE/4), SECTION 36-27S-39W (SW/4),)	CONSERVATION DIVISION
SECTION 1-28S-39W (NW/4), SECTION 2-)	
28S-39W (NE/4) IN STANTON COUNTY,)	
KANSAS (ATU 386))	

APPLICATION

COMES NOW, LINN OPERATING, Inc., 600 Travis, Suite 5100, Houston, TX 77002, Applicant herein and respectfully states to the Commission as follows:

1. The Applicant is the owner of oil and gas leasehold interests in Stanton County, Kansas, and operates several wells producing in the subject area from the Chase and Council Grove Formations, which respectively comprise the Hugoton and Panoma Council Grove Gas Fields.

2. The Applicant proposes to unitize gas leasehold interests and operations in the area pursuant to K.S.A. 55-1304(a)(2) for the purpose of the unitized management, operation and further development of a part of the Hugoton and Panoma Council Grove Gas Fields, which is economically feasible and reasonably necessary to prevent waste within these gas pools and thereby increase substantially the ultimate recovery of gas therefrom.

3. The unit area of the proposed gas unit, which is termed an "Alternate Tract Unit" ("ATU") under the Basic Integrated Proration Order for the Hugoton Gas Field and the Panoma Council Grove Gas Field when formed thereunder as an approximate 640 acre square, is shown on the attached unit plat and is as follows:

Section 35-27S-39W: SE/4
Section 36-27S-39W: SW/4
Section 1-28S-39W: NW/4
Section 2-28S-39W: NE/4

All in Stanton County, Kansas.

4. The Applicant will be the unit operator.

5. The unitized formations to be unitized within the unit area are the subsurface portions of the Unit Area described as a part of the common sources of supply of gas underlying the Unit Area known as an Alternate Tract Unit, and more specifically defined as the Chase and Council Grove Formations found in said Unit Area which are encountered in the subsurface between the approximate depths of 2,700 and 3,000 feet. Said Unit Area is comprised of parts of these pools in the area producing from the Chase and Council Grove Formations.

6. The additional drilling of an alternate tract unit well on the unit area as described above is needed for the effective management, development and production in a part of the Hugoton and Panoma Council Grove Gas Fields to substantially increase and maximize the ultimate gas recovery from the unit area.

7. That the value of the estimated additional recovery of the hydrocarbons from these formations substantially exceeds the estimated additional cost incident to the conducting of such operations. The proposed operations as outlined in the unit agreement and the unit operating agreement are fair and equitable to all interest owners.

8. That attached hereto and incorporated herein by reference are the following exhibits comprising Applicant's Plan for Unit Operations:

A. Unit Agreement

B. Unit Operating Agreement (Excerpted A.A.P.L. Form 610-1982 Model Form Operating Agreement, entirety incorporated by reference.)

9. That said Plan, as required by statute, has been approved in writing by at least 63% of the persons required to pay the costs of the unit operation, whereas Applicant owns 100% working interest in the unit area tracts described above and the governmental sections contributing said unit area tracts, and by the owners of at least 75% of the production or proceeds that will be credited to royalties, excluding overriding royalties or other like interests which are carved out of the leasehold estate.

10. That attached hereto and made a part of this Application, marked as Exhibit C, is a tabular listing of the names and addresses of all oil and gas lessees and other oil and gas interest owners owning interest in the unit area and affected sections whose names and addresses Applicant has been able to determine after diligent search and inquiry, which includes lessors, mineral owners and mortgagees of oil and gas interests of record. Pursuant to existing conventional unitization agreements, the working interests and royalty interests in the entirety of the four governmental sections

listed above are entitled to share in the production and proceeds from the subject alternate tract unit, thus are included on said tabular listing as parties in interest in this matter.

11. That Applicant has sent by regular mail a copy of this Application and Notice to all persons listed on the attached Exhibit C.

12. That Applicant is causing the Notice of Pending Application to be published as required by the Commission, in *The Wichita Eagle* and *The Johnson Pioneer* newspapers.

13. Therefore, Applicant requests that after due notice the Commission issue its Order providing for the unitization and unit operation of the subject alternate tract unit pursuant to K.S.A. 55-1301, et seq.

WHEREFORE, Applicant prays that the Commission consider this matter pursuant to K.S.A. 77-537 and if no protest or request for hearing is received within fifteen (15) days of notice, the Commission issue its Order providing for the Unitization and the Unit Operation of the subject Alternate Tract Unit comprised of the above described lands, and providing for such other and further provisions and relief as may be deemed appropriate.

By



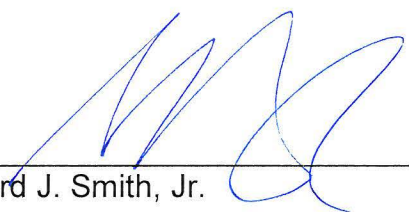
Stanford J. Smith Jr.
MARTIN, PRINGLE, OLIVER, WALLACE,
& BAUER, L.L.P.
100 North Broadway, Suite 500
Wichita, KS 67202
Attorney for Applicant

VERIFICATION

STATE OF KANSAS)
) ss:
COUNTY OF SEDGWICK)

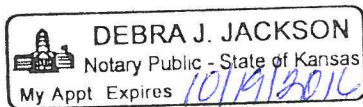
Stanford J. Smith, Jr., being of lawful age and being first duly sworn upon his oath, deposes and says:

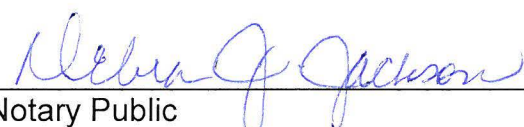
That he is the attorney for LINN OPERATING, Inc.; he has read the above and foregoing Application and is familiar with the contents and that the statements made therein are true and correct to the best of this knowledge and belief.



Stanford J. Smith, Jr.

SUBSCRIBED AND SWORN to before me this 8th day of July, 2014.





Notary Public

My Appointment Expires:

10/19/2016

EXHIBIT A

UNIT AGREEMENT

ALTERNATE TRACT UNIT DESCRIBED AS:

SECTION 35-27S-39W (SE/4), SECTION 36-27S-39W (SW/4),

SECTION 1-28S-39W (NW/4), SECTION 2-28S-39W (NE/4)

STATNON COUNTY, KANSAS

UNIT AGREEMENT

**ALTERNATE TRACT UNIT DESCRIBED AS:
SECTION 35-27S-39W (SE/4), SECTION 36-27S-39W (SW/4),
SECTION 1-28S-39W (NW/4), SECTION 2-28S-39W (NE/4)
STANTON COUNTY, KANSAS
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UNIT AGREEMENT

ALTERNATE TRACT UNIT DESCRIBED AS

SECTION 35-27S-39W (SE/4), SECTION 36-27S-39W (SW/4),

SECTION 1-28S-39W (NW/4), SECTION 2-28S-39W (NE/4)

STANTON COUNTY, KANSAS

THIS AGREEMENT, entered into as of the _____ day of _____, 20____, by the Parties who have consented in writing to be bound hereunder for the conduct of Unit Operations, or so bound by the Order of the Kansas Corporation Commission issued pursuant to the Kansas Statutes Annotated, Section 55-1301, et seq.,

WITNESSETH:

WHEREAS, in the interest of the public welfare and to promote conservation and increase the ultimate recovery of Unitized Substances from the Hugoton Field and Panoma Council Grove Field, in part in Stanton County, Kansas, and to protect the rights of the owners of interests therein, it is deemed necessary and desirable to enter into this Agreement to unitize the Oil and Gas Rights in and to the Unitized Formations in order to conduct Unit Operations as herein provided, pursuant to Kansas Statutes Annotated, Section 55-1301, et seq., or by unanimous approval of all Royalty Owners provided to the Unit Operator as sole Working Interest Owner.

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

ARTICLE 1 DEFINITIONS as used in this Agreement:

- 1.1 **Effective Date** is the time and date this Agreement becomes effective, as provided in Article 15.1.
- 1.2 **Oil 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.
- 1.3 **Outside Substances** are all substances purchased or otherwise obtained for a consideration by Unit Operator and introduced into the Unitized Formation.
- 1.4 **Party** is any individual, corporation, partnership, association, receiver, trustee, curator, executor, administrator, guardian, tutor, fiduciary, or other representative of any kind, any department, agency, or instrumentality of the state, or any governmental subdivision thereof, or any other entity capable of holding an interest in the Unitized Formation.
- 1.5 **Royalty Interest** is a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.
- 1.6 **Royalty Owner** is a Party hereto who owns a Royalty Interest.

- 1.7 **Tract** is the land described as such and given a tract number in "Exhibit B".
- 1.8 **Tract Participation** is the percentage shown on "Exhibit B" and "Exhibit B-1" for allocating Unitized Substances to a Tract.
- 1.9 **Unit Area** is the land described by Tracts in "Exhibit B" and "Exhibit B-1" and shown on "Exhibit A" as to which this Agreement becomes effective or to which it may be extended as herein provided.
- 1.10 **Unit Equipment** is all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.
- 1.11 **Unit Expense** is all cost, expense, or indebtedness incurred by the Unit Operator as sole Working Interest Owner pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.
- 1.12 **Unit Operations** are all operations conducted pursuant to this Agreement and the Unit Operating Agreement.
- 1.13 **Unit Operating Agreement** is the agreement entered into by the Working Interest Owner, having the same Effective Date as this Agreement, and entitled "Unit Operating Agreement for Alternate Tract Unit described as Section 35-27S-39W (SE/4), Section 36-27S-39W (SW/4), Section 1-28S-39W (NW/4), Section 2-28S-39W (NE/4), Stanton County, Kansas", and with this Agreement constitutes the Plan for Unit Operations.
- 1.14 **Unit Operator** is the sole Working Interest Owner under the Unit Operating Agreement to conduct Unit Operations, but acting as operator and not as Working Interest Owner.
- 1.15 **Unit Participation** of the Unit Operator as the Working Interest Owner is the entirety of the Working Interest singularly held in the Unit Area for Tract Participation of such Tract.
- 1.16 **Unitized Formations** is the subsurface portion of the Unit Area described as the common sources of supply of oil and gas underlying the Unit Area known as the Alternate Tract Unit described as:
- Section 35-27S-39W (SE/4), Section 36-27S-39W (SW/4),
Section 1-28S-39W (NW/4), Section 2-28S-39W (NE/4)
- all in Stanton County, Kansas, and more specifically identified as the Chase and Council Grove Formations.
- 1.17 **Unitized Substances** are all natural gas, gaseous substances, sulfur and helium contained in gas, and all associated and constituent gaseous hydrocarbons other than Outside Substances within or produced from the Unitized Formation.
- 1.18 **Working Interest** is an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, the owner of which interest is obligated to pay, either in cash or out of production or otherwise, the Unit Expense; however, Oil and Gas Rights that are free of lease or other instrument creating a Working Interest shall be regarded as Working Interest to the extent of seven-eighths (7/8) thereof and a Royalty Interest to the extent of the remaining one-eighth (1/8) thereof. A Royalty Interest created out of a Working Interest subsequent to the execution of

this Agreement by the owner of such Working Interest shall continue to be subject to such Working Interest burdens and obligations that are stated in this Agreement and the Unit Operating Agreement.

- 1.19 **Working Interest Owner** is the Party hereto who owns the Working Interest.

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 Alternate Tract Unit Area and the Tracts therein.
- 2.1.2 **“Exhibits B and B-1”** are schedules that describe each Tract in the Alternate Tract Unit Area and shows its Tract Participation by Working Interest and Royalty Interest.
- 2.2 **Reference to Exhibits.** When reference is made to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.
- 2.3 **Exhibits Considered Correct.** “Exhibit A”, “Exhibit B” and “Exhibit B-1” shall be considered to be correct until revised as herein provided.
- 2.4 **Correcting Errors.** The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse Royalty Interest ownership on the Effective Date, should have been divided into more than one Tract, or that any mechanical miscalculation or clerical error has been made, Unit Operator shall correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each such revision thereafter made shall be effective at 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 Unit Operator and set forth in the revised exhibit.
- 2.5 **Filing Revised Exhibits.** If an exhibit is revised, Unit Operator shall execute an appropriate instrument stating the effective date for the revised exhibit with the revised exhibit attached stating the effective date for the revised exhibit and file the same with the Kansas Corporation Commission.

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-1”, and all Oil and Gas Rights of the Working Interest Owner in and to said lands, are hereby unitized insofar as the respective Oil and Gas Rights pertain to the Unitized Formations, so that Unit Operations may be conducted with respect to the Unitized Formations as if the Unit Area had been included in a single lease executed by all Royalty Owners, as lessors, in favor of the Working Interest Owner, as lessee, and as if the lease contained all of the provisions of this Agreement.

- 3.2 **Personal Property Excepted.** All lease and well equipment, materials, and other facilities heretofore or hereafter placed by the Working Interest Owner on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owner.
- 3.3 **Amendment of Leases and Other Agreements.** The provisions of the various leases, agreements, division and transfer orders, or other instruments pertaining to the respective Tracts or the production therefrom are amended to the extent necessary to make them conform to the provisions of this Agreement, but otherwise shall remain in full force and effect. Royalty Owners agree that any default, forfeiture, or penalty provision in any such oil and gas lease or other contract shall be suspended and of no force or effect during the term of this Agreement.
- 3.4 **Continuation of Leases and Term Interests.** Production from any part of the Unitized Formations, except for the purpose of determining payments to Royalty Owners, or other Unit Operations shall be considered as production from or operations upon each Tract, and such production or operations shall continue in effect each lease 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.
- 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 Party to any other Party or to Unit Operator.
- 3.6 **Unitized Operation Rights.** Royalty Owners hereby grant the Working Interest Owner the right to conduct unitized management, operation and further development of the Unitized Formations as economically feasible and reasonably necessary to prevent the waste of Unitized Substances in the Unitized Formations and thereby substantially increase the ultimate recovery of Unitized Substances therefrom, 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.
- 3.7 **Development Obligation.** Nothing herein shall relieve the Working Interest Owner from any obligation to reasonably develop the lands and leases committed hereto, except as the same may conflict with the provisions hereof and Unit Operations which may be conducted hereunder.
- 3.8 **Cooperative Agreements.** Unit Operator may enter into cooperative agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

ARTICLE 4 PLAN OF OPERATIONS

- 4.1 **Unit Operator.** LINN OPERATING, Inc. is hereby designated as the 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 increased and waste prevented, the Working Interest Owner shall, with diligence and in accordance with good engineering and production practices, engage in unitized management, operation and further development of the Unitized Formations to efficiently and economically increase the ultimate recovery of Unitized Substances.

- 4.3 **Change of Method of Operation.** Nothing herein shall prevent the Working Interest Owner from discontinuing or changing in whole or in part any method of operation which, in their opinion, is no longer appropriate or in accord with good engineering or production practices. Other methods of operation may be conducted or changes may be made by the Working Interest Owner from time to time if determined by them to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances, consistent with Kansas Statutes Annotated, Section 55-1304(a)(2).

ARTICLE 5 TRACT PARTICIPATIONS

- 5.1 **Tract Participations.** The Tract Participations of each Tract are shown on "Exhibit B" and "Exhibit B-1". The Tract Participations as shown in said Exhibits are accepted and approved by the approving Parties hereto as being fair and equitable. The Unitized Substances produced from the Alternate Tract Unit Well drilled hereunder shall be allocated among the Parties according the respective Tract Participations.
- 5.2 **Relative Tract Participations.** If the Unit Area is enlarged or reduced, the revised Tract Participations of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another.

ARTICLE 6 ALLOCATION OF UNITIZED SUBSTANCES

- 6.1 **Allocation to Tracts.** All Unitized Substances produced and saved shall be allocated to the several Tracts in accordance with the respective Tract Participations effective during the period that the Unitized Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether the amount is more or less than the actual production of Unitized Substances from the Alternate Tract Unit Well shall be deemed for all purposes to have been produced from such Tract.
- 6.2 **Distribution Within Tracts.** The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the Parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal effect. If any Oil 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.
- 6.3 **Taking Unitized Substances in Kind.** The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such Parties shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of Unitized Substances shall be borne by the owner of such portion of Unitized Substances.

- 6.4 **Failure to Take in Kind.** If any Party fails to take in kind or separately dispose of such Party's share of Unitized Substances, Unit Operator shall have the right, but not the obligation, for the time being and subject to revocation at will by the Party owning the share, to purchase or sell to others such share; however, all contracts of sale by Unit Operator of any other Party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the Parties entitled thereto.
- 6.5 **Responsibility for Royalty Settlements.** Unit Operator shall be responsible for the payment of all royalties, overriding royalties, production payments and all other payments chargeable against or payable out of the proceeds from the sale of Unitized Substances, and shall indemnify all Parties hereto against any liability for such payment.
- 6.6 **Royalty on Outside Substances.** Unit Operator does not anticipate the injection of Outside Substance, consisting of natural gases or otherwise, into the Unitized Formation. In any event, no payment shall be due or payable to Royalty Owners on substances produced from the Unitized Formation that are deemed to be Outside Substances.

ARTICLE 7 PRODUCTION AS OF THE EFFECTIVE DATE

- 7.1 **Unitized Substances.** Unit Operator shall pay royalty due hereunder on produced Unitized Substances after the Effective Date according to Tract Participation.
- 7.2 **Overproduction.** If, as of the Effective Date, any Tract is subject to a regulatory constraint on its gas allowable and is overproduced with respect to said allowable of the wells on that Tract, and if the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the Unitized Substances produced after the Effective Date and shall be charged to such Tract as having been delivered to the Parties entitled to Unitized Substances allocated to such Tract.

ARTICLE 8 USE OR LOSS OF UNITIZED SUBSTANCES

- 8.1 **Use of Unitized Substances.** Unit Operator may use or consume Unitized Substances for Unit Operations, including but not limited to the injection thereof into the Unitized Formation.
- 8.2 **Royalty Payments.** No royalty, overriding royalty, production, or other payments shall be payable on account of Unitized Substances used, lost, or consumed in Unit Operations.

ARTICLE 9 TITLES

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

- 9.2 **Production Where Title is in Dispute.** If the title or right of any Party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator shall either:
- (a) require that the Party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such Party fails in whole or in part, or
 - (b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise, whereupon the proceeds so impounded shall be paid to the Party rightfully entitled thereto.
- 9.3 **Payment of Taxes to Protect Title.** The owner of surface rights to lands within the Unit Area, or severed mineral interests or Royalty Interests in such lands, or lands outside the Unit Area on which Unit Equipment is located, is responsible for the payment of any ad valorem taxes on all such rights, interests, or property, unless such owner and Working Interest Owners otherwise agree. If any ad valorem taxes are not paid by or for such owner when due, Unit Operator may, at any time prior to tax sale or expiration of period of redemption after tax sale, pay the tax, redeem such rights, interests, or property, and discharge the tax lien.
- Any such payment shall be an item of Unit Expense. Unit Operator shall, if possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due any delinquent taxpayer an amount sufficient to defray the cost of such payment or redemption, such withholding to be credited to the Unit Operator as the Working Interest Owner. Such withholding shall be without prejudice to any other remedy available to Unit Operator as the Working Interest Owner.
- 9.4 **Transfer of Title.** Any conveyance of all or any part of any interest owned by any Party hereto with respect to any Tract shall be made expressly subject to this Agreement. No change of title shall be binding upon Unit Operator, or upon any Party hereto other than the Party so transferring, until 7:00 a.m. on the first day of the calendar month next succeeding the date of receipt by Unit Operator of a certified copy of the recorded instrument evidencing such change in ownership.

ARTICLE 10 EASEMENTS OR USE OF SURFACE

- 10.1 **Grant of Easements.** Unit Operator shall have the right to use as much of the surface of the land within the Unit Area as may be reasonably necessary for Unit Operations and the removal of Unitized Substances from the Unit Area; however, nothing herein shall be construed as leasing or otherwise conveying to Unit Operator a campsite or a plant site for water injection, gas injection, or gas processing.
- 10.2 **Use of Water.** Unit Operator shall have and is hereby granted free use of non-potable water from the Unit Area for Unit Operations, except water from any well, lake, pond, or irrigation ditch of a Royalty Owner. Unit Operator may convert dry or abandoned wells in the Unit Area for use as water supply or disposal wells.
- 10.3 **Surface Damages.** Unit Operator shall pay the surface owner for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit Operations.

**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 Kansas Statutes Annotated, Section 55-1301, et seq., unless such change or amendment is approved in writing by all Royalty Owners.

**ARTICLE 12
RELATIONSHIP OF PARTIES**

- 12.1 **No Partnership.** The duties, obligations, and liabilities of the Parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to anyone or more of the Parties hereto. Each Party hereto shall be individually responsible for its own obligations as herein provided.
- 12.2 **No Joint Refining or Marketing.** This Agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any joint refining or marketing of Unitized Substances.
- 12.3 **Royalty Owners Free of Unit Expense.** This Agreement shall not be construed to impose upon any Royalty Owner any obligation to pay Unit Expense unless such Royalty Owner is otherwise so obligated.

**ARTICLE 13
LAWS AND REGULATIONS**

- 13.1 **Laws and Regulations.** This Agreement shall be subject to all applicable federal, state, and municipal laws, rules, regulations, and orders.
- 13.2 **Governing Law.** This Agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the laws of the state in which the Unit Area is located.

**ARTICLE 14
FORCE MAJEURE**

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

act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockage, public riot, lightning, fire, storm, flood, explosion, governmental laws, rules, regulations, orders, action, delay, restraint or inaction, unavailability of equipment, or inability to secure materials, or any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the Party claiming suspension.

ARTICLE 15 EFFECTIVE DATE

- 15.1 **Effective Date.** This Agreement shall become effective as of the date the Kansas Corporation Commission issues its Order approving this Unit Agreement for the subject Alternate Tract Unit; provided, however, in the event that this Agreement has been approved in writing by all Royalty Owners, all provisions of this Agreement pertaining to Regulatory approval shall be considered deleted.
- 15.2 **Ipso Facto Termination.** If this Alternate Tract Unit is not made effective within six (6) months after the date of issuance of the Order of the Kansas Corporation Commission approving same, because prior thereto Working Interest Owners owning a combined Unit Participation of at least seventy-five percent (75%) have not become Parties to this Agreement, this Agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect. If the Unit Operator seeks from the Commission for good cause an extension of the termination date for a period not to exceed two (2) months, and the termination date is so extended, but this unit is not made effective on or before the extended termination date, this Agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect. For the purpose of this Section, Unit Participation shall be as calculated on the basis of Tract Participations shown on the original "Exhibit B" and "Exhibit B-1."
- 15.3 **Certificate of Effectiveness.** Upon this unit going into effect, the Unit Operator shall promptly file with the Kansas Corporation Commission a certificate stating the Effective Date.

ARTICLE 16 TERM

- 16.1 **Term.** The term of this Agreement, unless sooner terminated in the manner hereinafter provided, shall be for and during the time that Unitized Substances are produced in paying quantities without a cessation of more than ninety (90) consecutive days, or so long as other Unit Operations are conducted without a cessation of more than ninety (90) consecutive days.
- 16.2 **Termination by Unit Operator.** This Agreement may be terminated by the Unit Operator as the Working Interest Owner with Unit Participation of one hundred percent (100%) whenever the Unit Operator determines that Unit Operations are no longer profitable or feasible.
- 16.3 **Effect of Termination.** Upon termination of this Agreement, the further development and operation of the Unitized Formation as a unit shall be abandoned, and Unit Operations shall cease. Each oil and gas lease and other agreement covering lands within the Unit Area shall remain in force for sixty (60) days after the date on which this Agreement terminates, and for such further period as is provided by the lease or other agreement.
- 16.4 **Salvaging Equipment Upon Termination.** If not otherwise granted by the leases or other instruments affecting the separate Tracts, Unit Operator shall have a period of six (6) months after the date of termination of this Agreement within which to salvage and remove Unit Equipment.

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

ARTICLE 17 EXECUTION

- 17.1 **Original, Counterpart, or Other Instrument.** An owner of Oil and Gas Rights 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 Persons had signed the same instrument and shall constitute approval of the entire Plan composed of this Agreement and the Unit Operating Agreement.
- 17.2 **Joinder in Dual Capacity.** Execution as herein provided by any Party as either the Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such Party.

ARTICLE 18 DETERMINATIONS BY WORKING INTEREST OWNERS

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

ARTICLE 19 GENERAL

- 19.1 **Amendments Affecting Unit Operator.** Amendments hereto relating wholly to Unit Operator may be made at Unit Operator's sole discretion with a vote of Royalty Owners unless otherwise provided herein.
- 19.2 **Action by Royalty Owners.** Except as otherwise provided in this Agreement, any action or approval required by Royalty Owners hereunder shall be in accordance with the provisions of this Agreement and the Unit Operating Agreement, as may be applicable.
- 19.3 **Lien and Security Interest of Unit Operator.** Whereas Unit Operator is the sole Working Interest Owner, Unit Operator shall have a lien upon and a security interest in the interests of the Royalty Owners in the Unit Area only to any extent provided by law.
- 19.4 **Headings for Convenience.** Except for the headings contained in Article 1, the headings and table of contents used in this Agreement are inserted for convenience only and shall be disregarded in construing this Agreement.
- 19.5 **Severability of Provisions.** The provisions of this Agreement are severable and if any section, sentence, clause or part thereof is held to be invalid for any reason, such invalidity shall not be construed to affect the validity of the remaining provisions of this Agreement.

ARTICLE 20
SUCCESSORS AND ASSIGNS

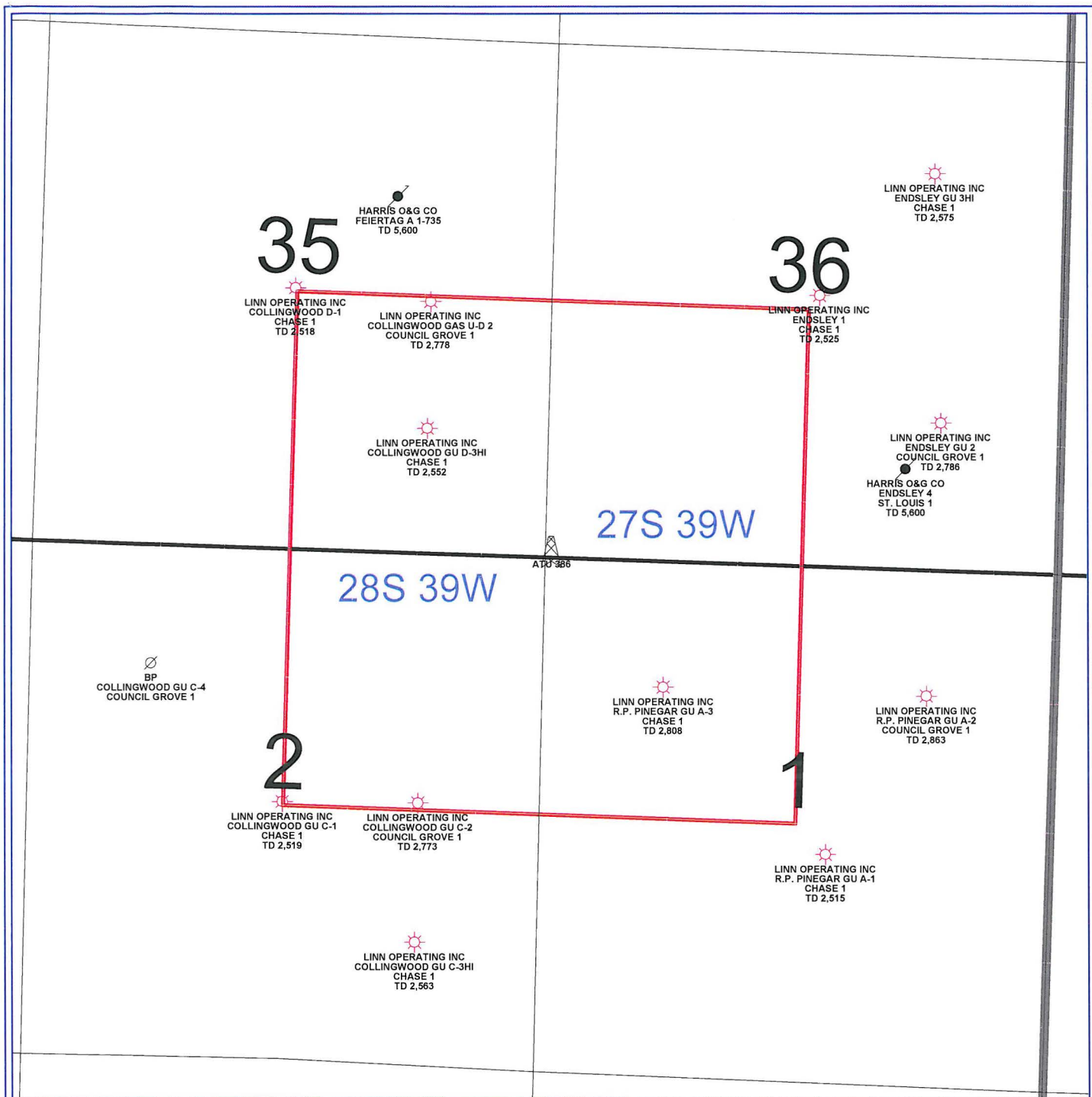
- 20.1 **Successors and Assigns.** This Agreement shall extend to, be binding upon, and inure to the benefit of the Parties hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interests covered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

“EXHIBIT A”
TO
UNIT AGREEMENT
ALTERNATE TRACT UNIT DESCRIBED AS:
SECTION 35-27S-39W (SE/4), SECTION 36-27S-39W (SW/4),
SECTION 1-28S-39W (NW/4), SECTION 2-28S-39W (NE/4)
STANTON COUNTY, KANSAS

MAP OR PLAT OF UNIT AREA

Showing:

1. Outline of Alternate Tract Unit Area delineated by heavy or hatched line.
2. Tract boundary lines as defined by section boundary lines and Outline of Unit Area.
3. Sections, townships ranges, surveys blocks, lots, etc. as applicable, with applicable legend.
4. Wells completed in the Unitized Formations and general location of proposed Alternate Tract Unit Well.



PETRA 10/24/2013 10:54:39 AM

LINN Operating Inc
Hugoton Kansas
ATU 386
Stanton Co. 28/27S - 39W
<div>0 1,448</div> <div>FEET</div>
WELL SYMBOLS ABANDONED LOCATION ATU Well Location Gas Well Plugged and Abandoned

“EXHIBIT B”
TO
UNIT AGREEMENT
ALTERNATE TRACT UNIT DESCRIBED AS:
SECTION 35-27S-39W (SE/4), SECTION 36-27S-39W (SW/4),
SECTION 1-28S-39W (NW/4), SECTION 2-28S-39W (NE/4)
STANTON COUNTY, KANSAS

TRACTS AND TRACT PARTICIPATION

WORKING INTEREST:

Tract No.	Tract Operator	Description	Acres	Tract Participation Percentages
1	LINN OPERATING, Inc.	SECTION 35-27S-39W (SE/4)	160	25.00%
2	LINN OPERATING, Inc.	SECTION 36-27S-39W (SW/4)	160	25.00%
3	LINN OPERATING, Inc.	SECTION 1-28S-39W (NW/4)	160	25.00%
4	LINN OPERATING, Inc.	SECTION 2-28S-39W (NE/4)	160	25.00%
		Total	640	100.00%

ROYALTY INTEREST:

SEE ATTACHED “EXHIBIT B-1”: ALTERNATE TRACT UNIT DESCRIBED AS:
SECTION 35-27S-39W (SE/4), SECTION 36-27S-39W (SW/4),
SECTION 1-28S-39W (NW/4), SECTION 2-28S-39W (NE/4)
ROYALTY INTEREST PARTICIPATION

NOTE: The royalty interests listed on Exhibit B-1 include all royalty interests in the four sections contributing acreage to the ATU, since existing communitization agreements require royalties to be paid by proportionate allocation to all royalty interests in said sections according to respective royalty interest in the ATU and thus said interests have been given the right to consent to the formation of the ATU, and further, have been given notice of filing and hearing on this Application to form said ATU pursuant to K.S.A. 55-1301, et seq.

"Exhibit B-1"
Proposed Alternate Tract Unit
Section 35-27S-39W (SE/4), Section 36-27S-39W (SW/4),
Section 1-28S-39W (NW/4), Section 2-28S-39W (NE/4)
Stanton County, Kansas

Owner Name	Address	CSZ	Interest Type	Section 35	Section 36	Section 1	Section 2	Total	Allocation	Date ATU Signed	% ATU Signed	County State	STR	Legal Suspense
ROBERT E SEGER	& SANDRA L SEGER JTWROS 5105 N BIG BOW GRADE	JOHNSON, KS 67855	R1	0.07031250				0.07031250	14.062500%	1/30/2014	14.062500%	Stanton,KS	35-027-S-039-W	PAY
ROBERT F AND JEANETTE S BENNETT	JOINT TENANTS JEANETTE S BENNETT POA 5207 SW 14TH ST	TOPEKA, KS 66604	R1	0.03125000				0.03125000	6.250000%	2/3/2014	6.250000%	Stanton,KS	35-027-S-039-W	PAY
SARAH ELLEN COLLINGWOOD FEIERTAG	8601 SHANNON WAY	WICHITA, KS 67206-1825	R1	0.02343750				0.02343750	4.687500%	2/3/2014	4.687500%	Stanton,KS	35-027-S-039-W	PAY
CLARENCE V KOOP	ERNIE DEAN KOOP, ATTY IN FACT 22324 E 1130 RD	CORN, OK 73024-5004	R1		0.01562500			0.01562500	3.125000%	2/5/2014	3.125000%	Stanton,KS	36-027-S-039-W	PAY
CLARENCE V KOOP	LIFE ESTATE ERNIE DEAN KOOP, ATTY 22324 E 1130 RD	CORN, OK 73024-5004	R2		0.01562500			0.01562500	3.125000%	2/5/2014	3.125000%	Stanton,KS	36-027-S-039-W	PAY
ROBERT E SEGER	& SANDRA L SEGER JTWROS 5105 N BIG BOW GRADE	JOHNSON, KS 67855	R1	0.03125000				0.03125000	6.250000%	1/30/2014	6.250000%	Stanton,KS	36-027-S-039-W	PAY
ROGER E HURST LIVING TRUST	HURST ROGER E PO Box 661	JOHNSON, KS 67855	R1		0.01562500			0.01562500	3.125000%	2/3/2014	3.125000%	Stanton,KS	36-027-S-039-W	PAY
DOROTHY HURST	208 E PATTERSON	ULYSSES, KS 67880-1801	R1		0.01562500			0.01562500	3.125000%	2/10/2014	3.125000%	Stanton,KS	36-027-S-039-W	PAY
SARAH ELLEN COLLINGWOOD FEIERTAG	8601 SHANNON WAY	WICHITA, KS 67206-1825	R1	0.03125000				0.03125000	6.250000%	2/3/2014	6.250000%	Stanton,KS	36-027-S-039-W	PAY
CLARENCE V KOOP	ERNIE DEAN KOOP, ATTY IN FACT 22324 E 1130 RD	CORN, OK 73024-5004	R1			0.01562900		0.01562900	3.125800%	2/5/2014	3.125800%	Stanton,KS	1-028-S-039-W	PAY
CLARENCE V KOOP	LIFE ESTATE ERNIE DEAN KOOP, ATTY 22324 E 1130 RD	CORN, OK 73024-5004	R2			0.01562900		0.01562900	3.125800%	2/5/2014	3.125800%	Stanton,KS	1-028-S-039-W	PAY
BAUGHMAN FOUNDATION INC	PO BOX 1356	LIBERAL, KS 67905-1356	R1			0.01367188		0.01367188	2.734376%			Stanton,KS	1-028-S-039-W	PAY
JANE HANANO	P O BOX 822	KAMUELO, HI 96743	R1			0.01035024		0.01035024	2.070048%			Stanton,KS	1-028-S-039-W	PAY
BARBARA J P SCHNELLBACHER	103 GREENRIDGE CIR	LEAGUE CITY, TX 77573-4541	R1			0.01035024		0.01035024	2.070048%			Stanton,KS	1-028-S-039-W	PAY
JOHN D PINEGAR TRUST	JOHN D PINEGAR TRUSTEE PO Box 555	TOPEKA, KS 66601	R1			0.01035023		0.01035023	2.070046%	1/31/2014	2.070046%	Stanton,KS	1-028-S-039-W	PAY
JUDY CORNETT	1226 KENSINGTON BLVD	GARDEN CITY, KS 67846	R1			0.01035024		0.01035024	2.070048%	2/4/2014	2.070048%	Stanton,KS	1-028-S-039-W	PAY
ANN CASE	1107 MELANIE LANE	GARDEN CITY, KS 67846	R1			0.01035024		0.01035024	2.070048%	2/6/2014	2.070048%	Stanton,KS	1-028-S-039-W	PAY
JAMES W PINEGAR	PO BOX 514	MOUNT HOPE, KS 67108	R1			0.01035024		0.01035024	2.070048%	2/22/2014	2.070048%	Stanton,KS	1-028-S-039-W	PAY
KENT AINSWORTH & BEVERLY AINS WORTH	BEVERLY AINSWORTH JOINT TENANTS 3096 NORTH ROAD B	JOHNSON, KS 67855-8848	R1	0.00019529				0.00019529	0.039058%			Stanton,KS	1-028-S-039-W	PAY
ROBERT H DAVIS	PO BOX 1089	HUGOTON, KS 67951-1089	R1			0.00878906		0.00878906	1.757812%	2/6/2014	1.757812%	Stanton,KS	1-028-S-039-W	PAY
CARROL A EHRSAM	PO BOX 1089	HUGOTON, KS 67951-1089	R1			0.00878906		0.00878906	1.757812%	2/6/2014	1.757812%	Stanton,KS	1-028-S-039-W	PAY
SONJA HATHAWAY	218 N WILSON	ULYSSES, KS 67880	R1			0.00019528		0.00019528	0.039056%			Stanton,KS	1-028-S-039-W	PAY
CAL FARLEY'S BOYS RANCH FOUNDATION	C/O AMARILLO NATIONAL BANK-OIL & GAS DEPT PO BOX 1	AMARILLO, TX 79105-0001	R1				0.03124610	0.03124610	6.249220%	2/13/2014	6.249220%	Stanton,KS	2-028-S-039-W	PAY
ROBERT E SEGER	& SANDRA L SEGER JTWROS 5105 N BIG BOW GRADE	JOHNSON, KS 67855	R1				0.03124610	0.03124610	6.249220%	2/3/2014	6.249220%	Stanton,KS	2-028-S-039-W	PAY
SARAH ELLEN COLLINGWOOD FEIERTAG	8601 SHANNON WAY	WICHITA, KS 67206-1825	R1				0.03125780	0.03125780	6.251560%	2/13/2014	6.251560%	Stanton,KS	2-028-S-039-W	PAY
BEAR CREEK PARTNERS	21 BLUE JAY DRIVE	SANTA FE, NM 87506	R1				0.03125000	0.03125000	6.250000%			Stanton,KS	2-028-S-039-W	PAY
				0.12500000	0.12500000	0.12500000	0.12500000	0.50000000	100.000000%		86.797414%			

EXHIBIT B

A.A.P.L. FORM 616-1982

MODEL FORM OPERATING AGREEMENT

[EXCERPTED]

**OPERATING AGREEMENT
DATED**

January 14, 2013

OPERATOR LINN OPERATING, INC.

UNIT AREA ALTERNATE TRACT UNIT DESCRIBED AS:
SECTION 35-27S-39W (SE/4), SECTION 36-27S-39W (SW/4),
SECTION 1-28S-39W (NW/4), SECTION 2-28S-39W (NE/4)

Limited to the Chase and Council Grove Formations in the ATU well described above to be drilled
in approximate center of an Alternate Tract Unit consisting of:

Section 35-27S-39W (SE/4), Section 36-27S-39W (SW/4),
Section 1-28S-39W (NW/4), Section 2-28S-39W (NE/4)

NOTE: WHEREAS UNIT OPERATOR LINN OPERATING, INC. IS THE SOLE WORKING
INTEREST OWNER IN SAID UNIT, THIS FORM OPERATING AGREEMENT IS
INCORPORATED BY REFERENCE AND MADE A PART OF THE PLAN OF UNIT
OPERATIONS TO THE EXTENT IT DEMONSTRATES PRUDENT METHODS OF
OPERATING AND AFFECTS THE INTERESTS OF ROYALTY OWNERS IN THE UNIT
AREA.

COUNTY OF STANTON, STATE OF KANSAS

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN. 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED FORM.
A.A.P.L. NO. 610 -1982 REVISED

COPY OF ENTIRE AGREEMENT
AVAILABLE ON REQUEST

EXHIBIT C

ROBERT E SEGER
& SANDRA L SEGER JTWROS
5105 N BIG BOW GRADE
JOHNSON, KS 67855

ROBERT F AND JEANETTE S BENNETT
JOINT TENANTS
JEANETTE S BENNETT POA
5207 SW 14TH ST
TOPEKA, KS 66604

SARAH ELLEN COLLINGWOOD FEIERTAG
8601 SHANNON WAY
WICHITA, KS 67206-1825

CLARENCE V KOOP
ERNIE DEAN KOOP, ATTY IN FACT
22324 E 1130 RD
CORN, OK 73024-5004

CLARENCE V KOOP
LIFE ESTATE
ERNIE DEAN KOOP, ATTY
22324 E 1130 RD
CORN, OK 73024-5004

ROGER E HURST LIVING TRUST
HURST ROGER E
PO BOX 661
JOHNSON, KS 67855

DOROTHY HURST
208 E PATTERSON
ULYSSES, KS 67880-1801

BAUGHMAN FOUNDATION INC
PO BOX 1356
LIBERAL, KS 67905-1356

JANE HANANO
P O BOX 822
KAMUELO, HI 96743

BARBARA J P SCHNELLBACHER
103 GREENRIDGE CIR
LEAGUE CITY, TX 77573-4541

JOHN D PINEGAR TRUST
JOHN D PINEGAR TRUSTEE
PO BOX 555
TOPEKA, KS 66601

JUDY CORNETT
1226 KENSINGTON BLVD
GARDEN CITY, KS 67846

ANN CASE
1107 MELANIE LANE
GARDEN CITY, KS 67846

JAMES W PINEGAR
PO BOX 514
MOUNT HOPE, KS 67108

KENT AINSWORTH & BEVERLY AINSWORTH
BEVERLY AINSWORTH
JOINT TENANTS
3096 NORTH ROAD B
JOHNSON, KS 67855-8848

ROBERT H DAVIS
PO BOX 1089
HUGOTON, KS 67951-1089

CARROL A EHRSAM
PO BOX 1089
HUGOTON, KS 67951-1089

SONJA HATHAWAY
218 N WILSON
ULYSSES, KS 67880

CAL FARLEY'S BOYS RANCH FOUNDATION
C/O AMARILLO NATIONAL BANK-OIL & GAS DEPT
PO BOX 1
AMARILLO, TX 79105-0001

BEAR CREEK PARTNERS
21 BLUE JAY DRIVE
SANTA FE, NM 87506

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION)
OF LINN OPERATING, INC. FOR AN) DOCKET NO. 15-CONS-_____-CUNI
ORDER PROVIDING FOR THE)
UNITIZATION AND UNIT OPERATION OF)
A PART OF THE HUGOTON AND)
PANOMA COUNCIL GROVE GAS FIELDS)
IN THE ALTERNATE TRACT UNIT)
DESCRIBED AS SECTION 35-27S-39W) OPERATOR NO. 33999
(SE/4), SECTION 36-27S-39W (SW/4),) CONSERVATION DIVISION
SECTION 1-28S-39W (NW/4), SECTION 2-)
28S-39W (NE/4) IN STANTON COUNTY,)
KANSAS (ATU 386))

NOTICE OF PENDING APPLICATION

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS TO:

ALL OIL AND GAS PRODUCERS AND OIL AND GAS PURCHASERS, ROYALTY OWNERS, LAND OWNERS, AND ALL PERSONS WHOMSOEVER CONCERNED:

YOU, and each of you, are hereby notified that LINN OPERATING, Inc., has filed an Application with the State Corporation Commission of the State of Kansas requesting an Order providing for the Unitization and Unit Operation of an Alternate Tract Unit pursuant to K.S.A. 55-1301, *et seq.*, and the Basic Integrated Proration Order for the Hugoton Gas Field and Panoma Council Grove Gas Field. The unit area subject to the requested Order is as follows:

Section 35-27S-39W (SE/4)
Section 36-27S-39W (SW/4)
Section 1-28S-39W (NW/4)
Section 2-28S-39W (NE/4)
All in Stanton County, Kansas.

YOU are further notified that unless written protest or request for hearing is received by the State Corporation Commission within 15 days after publication of this Notice, the Application in this matter will be granted pursuant to K.S.A. 77-537 after said 15 day period. Any such protest or request for hearing should be mailed to the State Corporation Commission of the State of Kansas, Conservation Division, 130 S. Market, Room 2078, Wichita, Kansas 67202 and to the Applicant at the address below.

All parties in anywise interested or concerned shall take notice of the foregoing and govern themselves accordingly.

LINN OPERATING, Inc.
BY: Brandon S. Powell
Landman
Kansas Hugoton Assets
600 Travis, Suite 5100
Houston, TX 77002
(281) 840-4309
bpowell@linnenergy.com