

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION	)	
OF E&B NATURAL RESOURCES	)	DOCKET NO. 18-CONS-3321-CUNI
MANAGEMENT CORPORATION FOR AN	)	
ORDER PROVIDING FOR THE	)	
UNITIZATION AND UNIT OPERATION OF	)	
A PART OF THE BEMIS-SHUTTS OIL AND	)	OPERATOR NO. 34405
GAS FIELD AS THE MARSHALL "A" and	)	CONSERVATION DIVISION
MARSHALL "B" UNIT IN ELLIS COUNTY,	)	
KANSAS.	)	

**SUPPLEMENT TO APPLICATION OF**  
**E&B NATURAL RESOURCES MANAGEMENT CORPORATION**  
**FOR AN ORDER PROVIDING FOR THE UNITIZATION AND UNIT**  
**OPERATIONS OF A PART OF THE**  
**BEMIS-SHUTTS OIL AND GAS FIELD**

COMES NOW, E&B Natural Resources Management Corporation, and files the attached document in support of its Application for Unitization and Unit Operations of a part of the Bemis-Shutts Oil and Gas Field as the Marshall "A" and Marshall "B" Unit in Ellis County, Kansas.

1. Attached hereto as Exhibit A to the Supplement is an Affidavit in Support of Application by J.A. Blesener, a Professional Engineer in Petroleum Engineering in three states including Kansas (No. 25899).

2. In addition, Applicant who is the one hundred percent (100%) working interest owner in the Unit attaches the Unit Operating Agreement for the Marshall "A" and Marshall "B" Unit.

WHEREFORE, Applicant prays that the Commission consider this matter and issue its Order providing for the Unitization and the Unit Operations of the Marshall "A" and Marshall "B" Unit and providing for such other and further provisions and relief as may be deemed appropriate.

MARTIN, PRINGLE, OLIVER, WALLACE,  
& BAUER, L.L.P.

By 

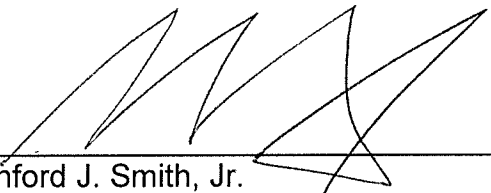
Stanford J. Smith, Jr., #11353  
100 North Broadway, Suite 500  
Wichita, KS 67202  
Telephone: (316) 265-9311  
[sjsmith@martinpringle.com](mailto:sjsmith@martinpringle.com)  
*Attorneys for Applicant*

**VERIFICATION**

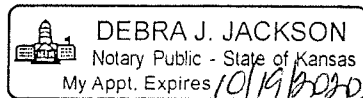
STATE OF KANSAS            )  
  ) ss:  
COUNTY OF SEDGWICK )

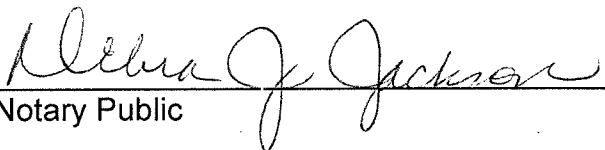
Stanford J. Smith, Jr., being of lawful age and being first duly sworn upon his oath, deposes and says:

That he is the attorney for E&B Natural Resources Management Corporation; he has read the above and forgoing Application and is familiar with the contents and that the statements made therein are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Stanford J. Smith, Jr.

SUBSCRIBED AND SWORN to before me this 10th day of May, 2018.



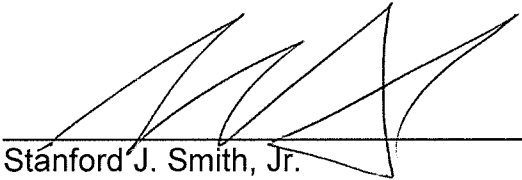
  
\_\_\_\_\_  
Notary Public

My Appointment Expires:  
10/19/2020

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was electronically filed with the Kansas Corporation Commission and e-mailed on this 10th day of May, 2018, to:

Jonathan R. Myers  
Litigation Counsel  
Kansas Corporation Commission  
266 North Main, Suite 220  
Wichita KS 67202



Stanford J. Smith, Jr.

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION	)	
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GAS FIELD AS THE MARSHALL "A" and	)	CONSERVATION DIVISION
MARSHALL "B" UNIT IN ELLIS COUNTY,	)	
KANSAS.	)	

**AFFIDAVIT IN SUPPORT OF APPLICATION**

I, J.A. Blesener, make the following affidavit in support of the Application of E&B Natural Resources Management Corporation for an order providing for the Unitization and unit operation of a part of the Bemis-Shutts Oil and Gas Field as the Marshall "A" and Marshall "B" Unit in Ellis County, Kansas. I do hereby state as follows:

1. I am a Professional Engineer in Petroleum Engineering in three states including Kansas (No. 25899);
2. I serve as Senior Vice President of Engineering and Evaluations for Applicant E&B Natural Resources Management Corporation;
3. I am familiar with the contents of the Application and the foundation for the Verified Application in Docket No. 18-CONS-3321-CUNI;
4. In paragraph 6 of the Verified Application, Applicant has stated: "The value of the estimated additional recovery of oil or gas that will result from unitized operations will substantially exceed the estimated additional cost incident to the conduct of such operations";
5. In support of the value of the estimated additional recovery of oil and gas, I have attached hereto Exhibit 1, the Marshall A North Water Flood Production Forecast;
6. In further explanation of Exhibit 1, I testify as follows:
  - a. The red line depicted on Exhibit 1 represents the amount of oil that would be produced over the next twelve years; the green line shows the effect of the water flood oil rate, but more importantly, the purple line demonstrates the total combined oil rate that will result as an outcome of water flooding;
  - b. As can be seen from Exhibit 1, as a result of water flooding, the production in the unit area rises from approximately twenty barrels of

oil per day to almost 100 barrels of oil per day within the second year of water flooding;

- c. Production in the unit area then remains significantly above the current producing oil rate and even after twelve years more than doubles what is currently being produced, and still 30 barrels of oil per day above what is anticipated would be produced without water flooding;
- d. This represents a substantial additional recovery of oil as a result of unitized operations;

7. It is estimated that the water flood project will cost in the neighborhood of \$460,000;

The operating plan is that E&B Natural Resources shall supervise and manage the unit and shall be responsible for costs allocated and paid. We will manage the unit using industry accepted good oil field practice.

We will convert two existing production wells; "Marshall B" #3 and "Marshall B" #6 to injection in a down-structure position to water flood the Lansing/Kansas City zone;

We will have four up-structure production wells; "Marshall A" #18, "Marshall A" #19, "Marshall A" #30 and "Marshall A" #32 producing in a pumped off condition;

The project will begin by water flooding the Lansing/Kansas City "B" and "I" subzone intervals and later progress to include the "F" and "G" intervals as the flood matures;

The wells and injection plant will be checked twice a day every day of the year;

Per KCC requirements, we will perform MIT testing of injection wells according to KCC requirement;

We will operate said wells within the guidelines of injection rate and pressure;

We will report to the KCC any spills or injection line leaks;

8. The five formations that are being unitized are commingled in various producing well bores creating pressure communication in the pool and they will be progressively flooded as the flood matures;

9. Utilizing an estimated oil price of \$50.00 per barrel of oil, the investment in the water flood will pay out within 14.6 months, at which point the additional recovery of oil will exceed the estimated additional cost incident to the conduct of unit operations for the life of the lease;

10. The tract participation factor did not impact the payment of royalties to the Mineral Interest Owners as their mineral ownership is the same in all three tracts that are being unitized and therefore we elected to use a tract participation factor based upon acreage as the most fair and equitable means to calculate tract participation.

11. As indicated in paragraph 8 of the Verified Application, the statute requires that the plan for unitization have been approved in writing by at least 63% of the persons required to pay the costs of the unit operation (Working Interest Owners), and

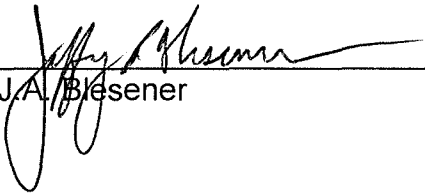
the owners of at least 75% of the production or proceeds thereof that will be credited to royalties (Royalty Interests Owners);

12. Exhibit B attached to the Verified Application demonstrates that E&B Natural Resources Management Corporation is the 100% Working Interest Owner in the unit; and

13. As shown in Exhibit C attached to the Verified Application, 84.375% of the Royalty Interest Owners have approved the plan of unit operation.

FURTHER AFFIANT SAITH NAUGHT.

Dated this 3rd day of May, 2018.

  
J. A. Blesener

Acknowledgments

A notary public or other officer completing the certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

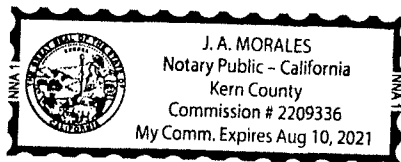
State of California                    )  
  ) ss  
County of Kern                        )

On May 7, 2018, before me, J.A. Morales, Notary Public, personally appeared Jeffrey Blesener who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

J.A. Morales  
Notary Public for the  
State of California  
My Commission expires on  
8-10, 2021





**UNIT OPERATING AGREEMENT FOR THE  
MARSHALL "A" AND MARSHALL "B" UNIT**

**Described as:**

**SE/4 of SECTION 25, T11S, R18W, E/2 of Section 36, T11S, R18W, and W/2 of  
Section 31, T11S, R17W, Ellis County, Kansas**

**Limited to the Lansing "B", Lansing "I", Lansing "F" and Lansing "G"  
Formations, which are all located in the Bemis-Shutts Oil Field**

Note: Whereas Unit Operator, E&B Natural Resources Management Corporation, is the sole working interest owner in said Marshall "A" and Marshall "B" Unit, this 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 the royalty owners in the Unit Area.

**UNIT OPERATING AGREEMENT**  
**MARSHALL "A" AND MARSHALL "B" UNIT**  
**ELLIS COUNTY, KANSAS**

**TABLE OF CONTENTS**

Preliminary Recitals

<b>ARTICLE 1 .....</b>	<b>6</b>
<b>1.1 Relationship to Unit Agreement .....</b>	<b>6</b>
<b>ARTICLE 2 .....</b>	<b>6</b>
<b>2.1 Exhibits .....</b>	<b>6</b>
<b>2.1.1 .....</b>	<b>6</b>
<b>2.1.2 .....</b>	<b>6</b>
<b>2.1.3 .....</b>	<b>7</b>
<b>2.1.4 .....</b>	<b>7</b>
<b>2.2 Reference to Exhibits .....</b>	<b>7</b>
<b>ARTICLE 3 .....</b>	<b>7</b>
<b>3.1 Overall Supervision .....</b>	<b>7</b>
<b>3.2 Specific Authority and Duties .....</b>	<b>7</b>
<b>3.2.1 Method of Operation .....</b>	<b>7</b>
<b>3.2.2 Drilling of Wells .....</b>	<b>7</b>
<b>3.2.3 Well Recompletions and Change of Status .....</b>	<b>7</b>
<b>3.2.4 Disposition of Unit Equipment .....</b>	<b>7</b>
<b>3.2.5 Appearance Before a Court or Regulatory Agency .....</b>	<b>8</b>
<b>3.2.6 Audits .....</b>	<b>8</b>
<b>3.2.7 Inventories .....</b>	<b>8</b>
<b>3.2.8 Technical Services .....</b>	<b>8</b>
<b>3.2.9 Legal Counsel .....</b>	<b>8</b>
<b>3.2.10 Assignments to Committees .....</b>	<b>8</b>
<b>3.2.11 Removal of Operator .....</b>	<b>9</b>
<b>3.2.12 Changes and Amendments .....</b>	<b>9</b>
<b>3.2.13 Investment Adjustment .....</b>	<b>9</b>

3.2.14	Termination of Unit Agreement .....	9
3.2.15	Adjustments of Expenditures and Settlements .....	9
ARTICLE 4	.....	9
4.1	Designation of Representatives .....	9
4.2	Meetings .....	9
4.3	Voting Procedure .....	9
4.3.1	Voting Interest.....	10
4.3.2	Vote Required.....	10
4.3.3	Vote at Meeting by Non-attending Working Interest Owner .....	10
4.3.4	Poll Votes .....	10
ARTICLE 5	.....	10
5.1	Reservation of Rights.....	10
5.2	Specific Rights .....	10
5.2.1	Access to Unit Area .....	10
5.2.2	Reports.....	11
ARTICLE 6	.....	11
6.1	Unit Operator .....	11
6.2	Resignation or Removal .....	11
6.3	Selection of Successor .....	11
6.4	Delivery of Property .....	12
ARTICLE 7	.....	12
7.1	Exclusive Right to Operate Unit .....	12
7.2	Workmanlike Conduct.....	12
7.3	Liens and Encumbrances .....	12
7.4	Employees.....	12
7.5	Records.....	12
7.6	Reports to Working Interest Owners .....	13
7.7	Reports to Governmental Authorities.....	13
7.8	Engineering and Geological Information .....	13
7.9	Expenditures .....	13
7.10	Expenditure Adjustments .....	13
7.11	Wells Drilled by Unit Operator .....	13

ARTICLE 8 .....	13
8.1 Ad Valorem Taxes .....	14
8.2 Other Taxes .....	14
ARTICLE 9 .....	14
9.1 Insurance .....	14
ARTICLE 10 .....	14
10.1 Personal Property Taken Over .....	14
10.1.1 Wells .....	15
10.1.2 Well and Lease Equipment .....	15
10.1.3 Records .....	15
10.2 Inventory and Evaluation of Personal Property .....	15
10.3 Investment Adjustment .....	15
10.4 General Facilities .....	15
10.5 Ownership of Personal Property and Facilities .....	16
ARTICLE 11 .....	16
11.1 Basis of Charge to Working Interest Owners .....	16
11.2 Budgets .....	16
11.3 Advance Billings .....	16
11.4 Commingling of Funds .....	16
11.5 Lien and Security Interests .....	17
11.6 Unpaid Unit Expense .....	19
11.7 Operations by Less Than All Working Interest Owners .....	19
11.7.1 Notice of Invoice .....	20
11.7.2 Default Response .....	20
11.7.3 Default Disposition .....	21
11.7.4 Option to Acquire Non-Consenting interest .....	21
11.7.5 Recovery of Costs .....	22
11.7.6 Operator to Make Distribution .....	23
11.8 Carved-out Interests .....	23
ARTICLE 12 .....	24
12.1 Right to Operate .....	24
ARTICLE 13 .....	24
13.1 Individual Liability .....	24

13.2 Settlements .....	24
13.3 Settlement Adjustments .....	25
ARTICLE 14 .....	25
14.1 Non-Discrimination .....	25
14.2 Internal Revenue Provision .....	25
ARTICLE 15 .....	26
15.1 Giving and Receiving Notices .....	26
15.2 Content of Notice .....	26
15.3 Response to Notices .....	26
15.4 Failure to Respond .....	26
ARTICLE 16 .....	26
16.1 Withdrawal .....	26
16.2 Limitation on Withdrawal .....	27
ARTICLE 17 .....	28
17.1 Rights of Former Owners .....	28
17.2 Plugging .....	28
ARTICLE 18 .....	28
18.1 Termination .....	28
18.1.1 Oil and Gas Rights .....	28
18.1.2 Right to Operate .....	29
18.1.3 Salvaging Wells .....	29
18.1.4 Cost of Abandonment and Surface Restoration .....	29
18.1.5 Distribution of Assets .....	29

**UNIT OPERATING AGREEMENT**  
**MARSHALL "A" AND MARSHALL "B" UNIT**  
**ELLIS COUNTY, KANSAS**

THIS AGREEMENT, entered into effective as the first day of the following month after the date the Kansas Corporation Commission issues its Order approving the Unit Agreement associated with this agreement and for the subject Unit.

WITNESSETH:

WHEREAS, an Agreement entitled "Unit Agreement, MARSHALL "A" AND MARSHALL "B" UNIT UNIT, Ellis County, Kansas", herein referred to as "Unit Agreement", has been made which, among other things, provides for a separate agreement to provide for Unit Operations as therein defined,

NOW, THEREFORE, it is provided as follows:

**ARTICLE 1**

**RELATIONSHIP TO UNIT AGREEMENT**

**1.1 Relationship to Unit Agreement.** This part of the Plan, entitled "Unit Operating Agreement", contains matters affecting only the Working Interest Owners. The definitions in the Unit Agreement are incorporated herein, and if there is any conflict between this Agreement and the Unit Agreement, the Unit Agreement shall govern.

**ARTICLE 2**

**EXHIBITS**

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

**2.1.1** "Exhibit A" and "Exhibit B" of the Unit Agreement.

**2.1.2** "Exhibit C", attached hereto, is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the portion of each Working Interest Owner's Unit Participation attributable to each such interest, and the Unit Participation of each Working Interest Owner. "Exhibit C", or a revision thereof, shall not be conclusive as to the information therein, except it may be used as

showing the Unit Participation of Working Interest Owners for purposes of this Agreement until shown to be in error and revised as herein authorized.

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

**2.1.4** "Exhibit E", attached hereto, contains Nondiscrimination provisions.

**2.2 Reference to Exhibits.** When 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 pursuant to this Agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in 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 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 Fifty Thousand Dollars (\$50,000.00) or more. This monetary amount may be adjusted by the Unit Operator upon approval of the Working Interest Owners as provided in Article 4 and Article 15, provided that such adjustment may not occur

more than once every six (6) months and in no event within one (1) year(s) from the Effective Date.

**3.2.5 Appearance Before a Court or Regulatory Agency.** The designating of a representative or representatives 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.

**3.2.6 Audits.** The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; however, the audits shall:

- (a) Not be conducted more than once each year except upon the resignation or removal of Unit Operator, and
- (b) Be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or
- (c) Be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and
- (d) Be made upon not less than thirty (30) days' written notice to Unit Operator.

**3.2.7 Inventories.** The taking of periodic inventories under the terms of "Exhibit D".

**3.2.8 Technical Services.** The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided for in "Exhibit D".

**3.2.9 Legal Counsel.** Notwithstanding the provisions of "Exhibit D", Unit Operator will have a vote in the selection of legal counsel.

**3.2.10 Assignments to Committees.** The appointment of committees to study any problems in connection with Unit Operations.



- 3.2.11 Removal of Operator.** The removal of Unit Operator and the selection of a successor.
- 3.2.12 Changes and Amendments.** 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.
- 3.2.13 Investment Adjustment.** The adjustment and readjustment of investments.
- 3.2.14 Termination of Unit Agreement.** The termination of the Unit Agreement as provided therein.
- 3.2.15 Adjustments of Expenditures and Settlements.** The adjustment of expenditure and settlement limitations provided for in Article 7.10 and Article 13.3.

#### **ARTICLE 4**

##### **MANNER OF EXERCISING SUPERVISION**

**4.1 Designation of Representatives.** Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to 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 fifty-one percent (51%). No meeting shall be called on less than fourteen (14) days advance written notice, except in the case of emergency, requiring a decision within less than fourteen (14) days. Any notice calling the meeting shall be in writing and shall specify the time and place of the meeting and shall include an agenda of the matters to be considered. 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 decide all matters coming before them as follows:

- 4.3.1 Voting Interest.** Unless otherwise provided herein, 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 a minimum of one (1) or more Working Interest Owners having a combined voting interest of at least fifty-one percent (51%).
- 4.3.3 Vote at Meeting by Non-attending Working Interest Owner.** Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter, telegram, telex, telecopier, cable, or facsimile addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting.
- 4.3.4 Poll Votes.** Any matter submitted in writing to the Working Interest Owners may be voted on by the Working Interest Owners by letter, telegram, telex, telecopier, cable, facsimile or by telephone, promptly confirmed in writing. If a meeting is not requested, as provided in Article 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the above vote shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

## **ARTICLE 5**

### **INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS**

**5.1 Reservation of Rights.** Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this Agreement and 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 at Working Interest Owners' sole risk and expense 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.

## **ARTICLE 6**

### **UNIT OPERATOR**

**6.1 Unit Operator.** E&B Natural Resources Management Corporation is designated as the initial Unit Operator.

**6.2 Resignation or Removal.** Unit Operator may resign at any time by giving written notice thereof to Working Interest Owners. If Unit Operator terminates its legal existence, no longer owns an interest hereunder in the Unit, or is no longer capable of serving as Unit Operator, Unit Operator shall be deemed to have resigned without any action by the Working Interest Owners, except the selection of a successor. Unit Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Working Interest Owners owning fifty-one percent (51%) interest based on ownership as set forth in Exhibit "C" herein remaining after excluding the voting interest of Unit Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following sixty (60) days after the giving of notice of resignation by Unit Operator or action by the Working Interest Owners to remove Unit Operator, unless a successor Unit Operator has been selected and assumes the duties of Unit Operator at an earlier date. Unit Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Working Interest Owner. A change of corporate name or structure of Unit Operator or transfer of Unit Operator's interest to any affiliate, subsidiary, parent or successor corporation shall not be the basis for removal of Unit Operator.

**6.3 Selection of Successor.** Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed or has resigned 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 fifty-one percent (51%) or more of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed or resigned.

**6.4 Delivery of Property.** On the effective date of resignation or removal, Unit Operator shall deliver to the successor Unit Operator the possession of everything jointly owned by the Working Interest Owners pursuant to this Agreement.

## **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 which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for losses sustained or liabilities incurred, even if such losses or liabilities are the result of Unit Operator's own negligence, unless such losses or liabilities 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 Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator granted hereunder.

**7.4 Employees.** The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator. However, Unit Operator may employ contractors in lieu of employees at its discretion as set forth in "Exhibit D".

**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 periodic reports of Unit Operations.

**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 a Working Interest Owner, upon written request, a copy of the logs and other engineering and geological data pertaining to wells drilled for Unit Operations.

**7.9 Expenditures.** Unit Operator shall neither make any single expenditure nor undertake any project costing in excess of Fifty Thousand Dollars (\$50,000.00) without prior approval of Working Interest Owners. Approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage. Notwithstanding the provisions of this Article, 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 and the action taken.

**7.10 Expenditure Adjustments.** The expenditure limit may be adjusted by the Unit Operator upon approval of the Working Interest Owners as provided in Article 4 and Article 15 provided that such adjustment may not occur more than once every six (6) months and in no event within two (2) year(s) from the Effective Date.

**7.11 Wells Drilled by Unit Operator.** All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the rates provided in "Exhibit 0", and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in 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 ad valorem 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. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account of all Working Interest Owners; however, if the interest of a Working Interest Owner is subject to a separately assessed royalty interest, overriding royalty interest, production payment, or other similar interest in excess of One-eighth (1/8), such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom.

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 same.

If the ad valorem taxes are based in whole or in part upon separate valuations of each Party's Working Interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the Parties hereto in proportion to the tax value generated by each Party's Working Interest.

**8.2 Other Taxes.** Each Working Interest Owner 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.

## **ARTICLE 9**

### **INSURANCE**

**9.1 Insurance.** Unit Operator shall provide for Workman's Compensation in accordance with the law of the state where Unit Operations are being conducted. No other insurance shall be provided by the Unit Operator for the benefit of the Parties hereto.

## **ARTICLE 10**

### **ADJUSTMENT OF INVESTMENTS**

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

**10.1.1 Wells.** All wells within the Unit Area completed in the Unitized Formation, as shown on Exhibit "A".

**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 which Working Interest Owners determine is necessary or desirable for conducting Unit Operations.

**10.1.3 Records.** A copy of all production and well records for such wells.

**10.2 Inventory and Evaluation of Personal Property.** Working Interest Owners shall, at Unit Expense, inventory and evaluate, as determined by Working Interest Owners, the personal property taken over. Such inventory shall include and be limited to those items of equipment considered controllable under "Exhibit D" except, upon determination of Working Interest Owners, items considered non-controllable may be included in the inventory in order to ensure a more equitable adjustment of investment. Casing shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

**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 personal property taken over under Article 10.1, and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Article 10.1 by such 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 above.

**10.4 General Facilities.** The acquisition of general facilities, including but not limited to, warehouses, warehouse stocks, lease houses, facility systems, water supply wells 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 Personal Property and Facilities.** Each Working interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement.

## **ARTICLE 11**

### **UNIT EXPENSE**

**11.1 Basis of Charge to Working Interest Owners.** Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation. All charges, credits, and accounting for Unit Expense shall be in accordance with "Exhibit "D".

**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 thereafter shall prepare a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted by Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

**11.3 Advance Billings.** Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense 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 after receipt of the estimate, 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.** Unit Operator shall hold for the account of the Working Interest Owners any funds of the Working Interest Owners advanced or paid to the Unit Operator, either for the conduct of operations hereunder or as a result of the sale of production from the Unit Area, and such funds shall remain the funds of the Working Interest Owners on whose account they are advanced or paid until used for their intended purpose or otherwise delivered to the Working Interest Owners or applied



toward the payment of debts as provided in Article 11.5. Nothing in this paragraph shall be construed to establish a fiduciary relationship between Unit Operator and Working Interest Owners for any purpose other than to account for Working Interest Owners' funds as herein specifically provided. Nothing in this paragraph shall require the maintenance by Unit Operator of separate accounts for the funds of Working Interest Owners unless the Parties otherwise specifically agree.

**11.5 Lien and Security Interests.** Each Working Interest Owner grants to the unit and each of the other Working Interest Owners a lien upon any interest it now owns or hereafter acquires in Oil and Gas Rights and Working Interests in the Unit Area, and a security interest and/or purchase money security interest in any interest used or obtained for use in connection therewith, to secure performance of all its obligations under this Agreement including but not limited to payment of Unit Expense, interest, attorney fees, court costs, cost of collection, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil and Gas Rights as required hereunder, and the proper performance of operations hereunder. Such lien and security interest granted by each Working Interest Owner hereto shall include such Working Interest Owner's leasehold interest, Working Interests, operating rights, and Royalty Interest and overriding royalty interests in the Unit Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this Agreement, the Unitized Substances when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from gas imbalances or from the sale of Unitized Substances at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing to the extent allowed by law.

To perfect the lien and security agreement provided herein, each Party hereto shall execute and acknowledge the recording supplements and/or any financing statement prepared and submitted by any Party hereto in conjunction herewith or at any time following execution hereof, and Unit Operator is authorized to file this Agreement or the recording supplement executed herewith as a lien or mortgage in the applicable records and as a financing statement with the proper officer under the Uniform Commercial Code or other applicable laws in the state in which the Unit Area is situated and such other states as Unit Operator shall deem appropriate to perfect the security interest granted hereunder. Any Working Interest

Owner may file this Agreement, the recording supplement executed herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable records and/or a financing statement with the proper officer under the Uniform Commercial Code.

All Working Interest Owners acquiring an interest in Oil and Gas Rights and Working Interest covered by this Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article 11.5 as to all obligations attributable to such interest hereunder.

To the extent that Working Interest Owners have a security interest under the Uniform Commercial Code or other applicable laws of the state in which the Unit Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code or such other laws. The bringing of a suit and the obtaining of judgment by a Working Interest Owner for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of expenses, interest, or fees, or upon the improper use of funds by the Unit Operator, the other Working Interest Owners shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting Working Interest Owner's share of Unitized Substances to the extent allowed by law until the amount owned by such Working Interest Owner, plus interest as provided in "Exhibit D", has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting Working Interest Owner's share of Unitized Substances. All purchasers of production may rely on a notification of default from the non-defaulting Working Interest Owner(s) stating the amount due as a result of the default, and all Working Interest Owners waive any recourse available against purchasers for releasing production proceeds as provided in Article 11.5.

If any Working Interest Owner does not perform all of its obligations hereunder, and the failure to perform subjects such Working Interest Owner to foreclosure or execution proceedings pursuant to the provisions of this Agreement, to the extent allowed by governing law, the defaulting Working Interest Owner waives any available right of redemption from and after the date of judgment, and any required valuation or appraisal of the mortgaged or secured property prior to sale, any available rights to stay

execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each Working Interest Owner hereby grants to the other Working Interest Owners a power of sale as to any property that is subject to the lien and security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

To the extent permitted by applicable law, each Working Interest Owner agrees that the other Working Interest Owners shall be entitled to utilize the provisions of oil and gas lien law or other lien law of the state in which the Unit Area is situated to enforce the obligations of each Working Interest Owner hereunder. Without limiting the generality of the foregoing, to the extent permitted by applicable law, non-operators agree that Unit Operator may invoke or utilize the mechanic's or materialman's lien law of the state in which the Unit Area is situated in order to secure the payment to Unit Operator of any sum due hereunder for services performed or materials supplied by Unit Operator.

**11.6 Unpaid Unit Expense.** If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, or if any Working Interest Owner elects to be carried or otherwise financed, each non-defaulting or non-carried Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting or carried Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting or carried Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting or carried Working Interest Owner. Any Working Interest Owner so paying a defaulting or carried Working Interest Owner's share of Unit Expense shall, to obtain **reimbursement** thereof, be subrogated to the lien and other rights herein granted Unit Operator.

**11.7 Operations by Less Than All Working Interest Owners.** If any Working Interest Owner receiving notice of proposed operations elects in writing not to participate in the proposed operations, then, in order to be entitled to the benefits of this Article, the Working Interest Owner or Working Interest Owners giving the notice and such other Working Interest Owners as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of fifteen (15) days, actually commence work on the proposed operation and complete it with due diligence. Any

Working Interest Owner receiving notice and failing to actively elect to participate or not to participate within the time and manner set forth herein shall be deemed to be a Non-Consenting Party and their respective interest shall be so treated in accordance with the terms of this Article of this Unit Operating Agreement. Operator shall perform all work for the account of the Consenting Parties.

**11.7.1 Notice of Invoice.** Should the Unit Operator fail to receive any notice from a Working Interest Owner after having issued the initial invoice for the proposed operation or receives an election from the Working Interest Owner for participation who is unable to pay its share of the Unit Expense within thirty (30) days after receipt of invoice from the Unit Operator, the Unit Operator then shall, by certified mail, return receipt requested, forward to such Working Interest Owner a second invoice for the same matter; notifying such Working Interest Owner that it is in default under the terms of this Unit Operating Agreement, and that the Unit Operator intends to invoke the provisions of Articles 11.7 through 11.7.6 of the Unit Operating Agreement if such invoice is not paid within forty-eight (48) hours of delivery to the Working Interest Owner . If a bona fide dispute exists as to the validity of some or all of the unpaid Unit Expenses as set forth on the invoice, and if the Working Interest Owner tenders the amount of all undisputed amounts within the forty-eight (48) hour period provided for in this paragraph, the Working Interest Owner must also submit within this period a written notice setting forth its objections and reasons for disputing the validity of all remaining unpaid Unit Expenses.

**11.7.2 Default Response.** The failure to respond either by tendering partial payment or by giving written notice of the dispute shall confer on the Unit Operator the right to treat such failure to pay the invoice as an election by the defaulting Working Interest Owner to be treated as a Non-Consenting Party to the operation, by exercising the provisions of Article 11.7.4 as to the Non-Consenting Party's interest; and the recovery of costs attributed thereto shall be in accordance with the provisions of Article 11.7.5.

**11.7.3 Default Disposition.** Such unpaid Unit Expense shall be carried and paid for by all participating Working Interest Owners subject to the provisions of Article 11.7, et seq.; with the further provision that participating Working Interest Owners shall be reimbursed for their proportionate interest when the amounts so carried thereon are collected out of the proceeds attributed to the defaulting or Non-Consenting Working Interest Owner's share of the Unitized Substances, including, to the extent provided for under appropriate Kansas Law, overriding royalty interests, oil and gas payments, or other interests in excess of the 1/8 royalty interest to which the Working Interest Owner's interest is subject. During that period of time that any Working Interest Owner fails to pay its share of the Unit Expense, the Unit Operator without prejudice to other remedies shall be entitled to collect and receive from the purchaser the proceeds from such defaulting or Non-Consenting Working Interest Owner's share of the Unitized Substances. All credits to any such defaulting or Non-Consenting Working Interest Owner on account of the sale or other disposal of Unit Equipment, or otherwise, shall also be applied toward the unpaid share of the Unit Expense charged against such interest.

**11.7.4 Option to Acquire Non-Consenting interest.** If less than all Working Interest Owners approve any proposed operations, the Unit Operator, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the Working Interest Owners approving such operations, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours after receipt of such notice, shall advise the Unit Operator of its desire to (a) limit participation to such Working Interest Owner's interest, or (b) carry its proportionate part of Non-Consenting Party's interest. The Unit Operator, at its election, may withdraw such proposal if there is insufficient

participation, and shall promptly notify all Working Interest Owners of such decision.

**11.7.5**

**Recovery of Costs.** The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in an unusable well, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. Upon commencement of operations by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interest from the Non-Consenting Party's proportionate share of Unit Production, (which is payable out of or measured by the production from the Unit accruing with respect to such interest until it reverts), an amount equal to the total of the following:

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

being further understood that such costs shall also be subject to the rate of interest set forth in Exhibit "D".

- (b) Three hundred percent (300%) of that portion of the costs and expenses of drilling wells in the Unit Area, including, but not limited to, staking, wellsite preparation, rigging up or drilling and reworking, deepening or plugging back, testing and completing, and three hundred percent (300%) of that portion of the cost and expenses of the underground pipeline systems, expenses for injected substances and any other incurred expenses which are not recoupable in the further development and operation of the Unit Area, including the cost of newly acquired equipment in the well to, and including, the wellhead connections, all of which would have been chargeable to such Non-Consenting Party if it had participated therein.

**11.7.6 Operator to Make Distribution.** During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Operator shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

**11.8 Carved-out Interests.** If any Working Interest Owner shall, after executing this Agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this Agreement, specifically including, but without limitation, Article 11.5 hereof entitled "Lien and Security Interests". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this Agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this Agreement under the terms and provisions of Article 16 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the

same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Article 11.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

## **ARTICLE 12**

### **NON-UNITIZED 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 shall produce Unitized Substances through any well drilled or operated by it. 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**

### **LIABILITY, CLAIMS, AND SUITS**

**13.1 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.

**13.2 Settlements.** Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Fifty Thousand Dollars (\$50,000.00) 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 assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense except that no charge for services of Unit Operator's legal staff shall be made unless agreed to by the Working Interest Owners. 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 Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

**13.3 Settlement Adjustments.** The expenditure limit for the settlement of single damage claims or suits involving Unit Operations may be adjusted by the Unit Operator upon approval of the Working Interest Owners as provided in Article 4 and Article 15 provided that such adjustment may not occur more than once every six (6) months and in no event within two (2) year(s) from the Effective Date.

## **ARTICLE 14**

### **LAWS AND REGULATIONS**

**14.1 Non-Discrimination.** During the performance of work under this Agreement, Unit Operator agrees to comply with all the provisions set forth in "Exhibit E" hereto.

**14.2 Internal Revenue Provision.** Notwithstanding any provisions herein that the rights and liabilities of the Parties 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 of the Parties hereto 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 hereby authorized and directed to execute on behalf of each of the Parties hereto 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 Party hereto further evidence this election, each Party hereto agrees to 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. Each Party hereto further agrees not to 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 of the Parties agree to make such election as may be permitted or required by such laws. In making this election, each of the Parties states that the income derived by such Party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

## **ARTICLE 15**

### **NOTICES**

**15.1 Giving and Receiving Notices.** All notices shall be in writing and delivered in person or by mail, telex, telegraph, telecopier, cable, or facsimile; however, if a drilling rig is on location and standby charges are accumulating, such notices shall be given by telephone and immediately confirmed in writing. Notice shall be deemed given only when received by the Party to whom such notice is directed.

**15.2 Content of Notice.** Any notice that requires a response shall indicate the maximum response time specified in Article 15.3. If a proposal involves a well operation, the notice shall include the proposed depth, the objective zone or zones to be tested, the surface and bottom-hole locations, the equipment to be used, and the estimated costs of the operation including all necessary expenditures through installation of the wellhead.

**15.3 Response to Notices.** Each Party's response to a proposal shall be in writing to the Unit Operator. The maximum response time shall be fifteen (15) days; however, if a drilling rig is on location and standby charges are accumulating, the maximum response time to a notice pertaining to such drilling rig shall be twenty-four (24) hours.

**15.4 Failure to Respond.** Failure of any Party to respond to a notice within the required period shall be deemed to be a negative vote.

## **ARTICLE 16**

### **WITHDRAWAL OF WORKING INTEREST OWNER**

**16.1 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 Participation. 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, including the cost of surface restoration of the Unit Area which may be required by law, rule, regulation, order, or contract, and 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 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.

**16.2 Limitation on Withdrawal.** Notwithstanding anything set forth in Article 16.1, 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, carried interest, or any other interest created out of the Working Interest in excess of One-eighth (1/8) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

No Working Interest Owner shall be relieved of its obligations hereunder during a blowout, a fire, or other emergency, but may withdraw from this Agreement after termination of such emergency, provided such Working Interest Owner shall remain liable for its share of all costs arising from said emergency.

## **ARTICLE 17**

### **ABANDONMENT OF WELLS**

**17.1 Rights of Former Owners.** In the event any Working Interest Owner proposes the abandonment of a unit well, Unit Operator shall furnish such proposal to the Working Interest Owners for their approval. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, 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 ninety (90) days after such notice is given to notify 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 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 and assume all surface restoration obligations and any other expense associated with non-unit operations, in compliance with the applicable laws, rules, regulations, orders, and contractual obligations.

**17.2 Plugging.** If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws, rules, and regulations.

## **ARTICLE 18**

### **ABANDONMENT OF OPERATIONS**

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

**18.1.1 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.

**18.1.2 Right to Operate.** Working Interest Owners of any Tract that desire to take over and 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 in and on the wells taken over and by agreeing upon abandonment to plug each well and assume all surface restoration obligations and any other expense associated with non-unit operations in compliance with applicable laws, rules, regulations, orders, and contractual obligations.

**18.1.3 Salvaging Wells.** Unit Operator shall salvage as much of the Unit Equipment 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 and the surface of the Unit Area restored in compliance with applicable laws, rules, regulations, orders, and contractual obligations.

**18.1.4 Cost of Abandonment and Surface Restoration.** The cost of abandonment of Unit Operations and surface restoration of the Unit Area shall be Unit Expense.

**18.1.5 Distribution of Assets.** Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participation.

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

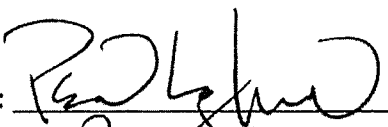
**Working Interest Owner**

**E&B Natural Resources Management Corporation**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Date Signed: \_\_\_\_\_

  
Paul England, Lead Manager  
12/19/2018

**Well Legend**

●	COM	○	LOC
●	COM P&A	●	OGG
●	OGG	●	OGG-P&A
✓	DOE	●	OGG
✓	DOE P&A	✓	OGG P&A
●	OGG	○	OTHER
●	OGG P&A	○	OTHER P&A
✓	BJ	●	BJD
✓	BJ P&A	●	BJD P&A
○	ATENT		

**Marshall 'A' and Marshall 'B' Unit**

**Section 26**

**Section 30**

**Section 28**

**Section 31**

**Scale**

**North Arrow**

**"EXHIBIT B"**  
**TO**  
**UNIT OPERATING AGREEMENT**  
**MARSHALL "A" AND MARSHALL "B" UNIT**  
**ELLIS COUNTY, KANSAS**

**TRACTS AND TRACT PARTICIPATIONS**

**All Lands in Township 11 South, Range 17 and 18 West, Ellis County, KS**

Tract No.	Tract Operator	Description	Acres	Tract Participation Percentages
1	E&B Natural Resources Management Corp.	SE/4 of Section 25, T11S, R18W	160	5.0%
2	E&B Natural Resources Management Corp.	E/2 of Section 36, T11S, R18W	320	47.5%
3	E&B Natural Resources Management Corp.	W/2 of Section 31, T11S, R17W	320	47.5%
		<b>Total</b>	<b>480</b>	<b>100.0%</b>

**"EXHIBIT C"**  
**TO**  
**UNIT OPERATING AGREEMENT**  
**MARSHALL "A" AND MARSHALL "B" UNIT**  
**ELLIS COUNTY, KANSAS**

**Working Interest Ownership by Tracts and Attributable Unit Participation**

Tract No.	Working Interest Owner (Tract Operator)	Description	Acres	Tract Working Interest (%)	Tract Participation Percentages (%)
1	E&B Natural Resources Management Corp.	SE/4 of Section 25, T11S, R18W	160	100.0%	5.0%
2	E&B Natural Resources Management Corp.	E/2 of Section 36, T11S, R18W	320	100.0%	47.5%
3	E&B Natural Resources Management Corp.	W/2 of Section 31, T11S, R17W	320	100.0%	47.5%
		<b>Total</b>	<b>480</b>	<b>100.0%</b>	<b>100.0%</b>



**"EXHIBIT D"**  
**TO**  
**UNIT OPERATING AGREEMENT**  
**MARSHALL "A" AND MARSHALL "B" UNIT**  
**ELLIS COUNTY, KANSAS**

**ACCOUNTING PROCEDURE**

(Available for this purpose are a number of more or less standard printed forms of accounting procedure. For example, there is the COPAS form developed by the Council of Petroleum Accountants Societies of North America printed by Kraftbilt, Inc., P. O. Box 800, Tulsa, OK 74101.)

**"EXHIBIT E"**  
**UNIT OPERATING AGREEMENT**  
**MARSHALL "A" AND MARSHALL "B" UNIT**  
**ELLIS COUNTY, KANSAS**

**NONDISCRIMINATION AND INSURANCE PROVISIONS**  
(To be included as determined by Working Interest Owner)