BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Merit Energy Company, LLC, for an Order Authorizing the Unitization and Unit Operation of the Farmers Ditch Unit to be located in Finney County, Kansas	)))))	Docket No. 24-CONS-3390-CUNI CONSERVATION DIVISION License No. 32446

APPLICATION

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

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

2. The Commission has issued Merit oil and gas operator's License No. 32446, which license is in full force and effect through May 30, 2025.

3. Merit's affiliate, Merit Hugoton, L.P., is the owner of an undivided working interest in certain oil and gas leases covering the pool sought to be unitized pursuant to this Application. Merit operates said leases on behalf of its affiliate and is authorized to file this Application on its behalf.

4. The proposed Farmers Ditch Unit will be comprised of the E/2 and NW/4 of Section 31, Township 23 South, Range 33 West, Finney County, Kansas ("Unit Area"), which Unit Area contains approximately 480 acres and is depicted on Exhibit A.

5. Merit proposes to unitize and operate the oil and gas leases covering the Unit Area, limited in depth to the Morrow and Chester formations ("Unitized Formations"), pursuant to K.S.A. 55-1301, *et seq.*, specifically K.S.A. 55-1304(a)(1).

6. Merit intends to conduct a waterflood within the Unitized Formations underlying the Unit Area. Operations will be conducted pursuant to the terms of the Unit Operating Agreement attached as Exhibit C. The waterflood will involve a two well line drive flood designed to maximize displaced oil within the pool contained within the Unitized Formations. The development plan is attached as Exhibit E to the Unit Operating Agreement (Exhibit C), and describes and depicts the waterflood in greater detail.

7. Oil and gas produced from the Farmers Ditch Unit will be allocated across two tracts as depicted and described on Exhibit A and Exhibit 1 to the Unit Agreement (Exhibit B)

8. Oil and gas produced from the Farmers Ditch Unit will be allocated on a weighted basis across the two tracts according to their respective Tract Participations. The Tract Participations are based upon two factors: (1) original-oil-in-place beneath each tract, and (2) cumulative volume of oil produced from the Unitized Formations beneath each tract, which factors are equally weighted. The factors are intended to allocate production of oil and gas produced pursuant to the waterflood operations from the pool underlying the Unit Area equitably among the interest owners of each tract. The tract participation factors are described in Section 5.1 of the Unit Agreement (Exhibit B). Exhibit 2 to the Unit Agreement (Exhibit B) summarizes the Tract Participation for each tract, and Exhibit 3 to the Unit Agreement (Exhibit B) demonstrates the calculation of the Tract Participation for each tract. Exhibit 4 to the Unit Agreement (Exhibit B) describes how produced hydrocarbons will be allocated among various royalty interest owners of each tract. Exhibit 5 to the Unit Agreement (Exhibit B) describes how produced hydrocarbons

will be allocated among various working interest owners of each tract. All costs and expenses incurred in the operation of the Farmers Ditch Unit will be allocated to the two tracts on the same basis that production of oil is allocated.

9. Merit will be the unit operator of the proposed Farmers Ditch Unit.

10. The pool to be unitized lies within the Unitized Formations beneath the Unit Area. The Unitized Formations beneath the Unit Area are described as the stratigraphic equivalent of the top of the Morrow shale found at a measured depth of 4,660' to the top of the St. Genevieve formation found at a measured depth of 4,754' as shown in the well logs for the Larson 1-731 well (API No. 15-055-21744), located approximately 2,435' FNL and 2,150' FEL in Section 31-T23S-R33W. The pool within the Unitized Formations constitutes a single pressure system.

11. Merit's technical staff have determined that the primary production from the pool sought to be unitized has reached a low economic level and, without introduction of artificial energy, abandonment of oil or gas wells is imminent.

12. Merit's technical staff have also determined that the value of the estimated additional oil and gas that can be recovered from the Unitized Formations substantially exceeds the estimated additional costs incident to conducting the waterflood operations proposed in this Application.

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

14. The Plan has been approved in writing by at least 63% of the persons required to pay the costs of the unit operation, and by the owners of at least 63% 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. Specifically, Merit has obtained approval of the Unit Agreement (Exhibit B) from 71.26% of the owners of the proceeds credited to royalties and from those persons who will pay 100% of the costs of unit operations.

15. Exhibit D attached hereto contains a tabular listing of the names and addresses of all oil and gas lessees and other oil and gas interest owners owning interests in the Unitized Formations beneath the Unit Area whose names and addresses Merit has been able to determine after diligent search and inquiry, which list also includes lessors, mineral owners, overriding royalty interest owners, and mortgagees of oil and gas interests of record. Exhibit D also includes a list of each operator of record within one-half mile of the boundary of the Unit Area. There are no unleased mineral owners within the one-half mile boundary from the Unit Area.

16. Merit has sent a copy of this Application and the Notice of Application by regular mail to all persons listed on Exhibit D, has hand-delivered the same to its affiliate, and is causing the Notice of Application to be published in the *Wichita Eagle,* and the *Garden City Telegram*, the official newspaper for Finney County, Kansas. As a result, notice complies with the requirements of K.S.A. 55-1310, K.S.A. 55-605, and K.A.R. 82-3-135a, and is lawful and proper in all respects. Each publisher's affidavit will be provided to the Commission upon and after the date of publication of the Notice of Application.

17. Merit requests that the Commission issue an Order authorizing the unitization and unit operation of the Farmers Ditch Unit pursuant to K.S.A. 55-1301, *et seq*.

WHEREFORE, Merit prays that the Commission docket this Application and, if no written protest is received within 15 days after Notice of the Application is published and has been duly provided to all interested parties, administratively grant this Application and issue an order providing for the unitization and unit operation of the Farmers Ditch Unit pursuant to the terms set

forth in the Plan. In the event a timely and proper protest is filed, Merit requests that the Commission set this Application for hearing, and upon such hearing grant the requested order and make such other provisions as it deems necessary and proper.

Respectfully submitted,

MORRIS LAING LAW FIRM

By: _____

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Email – jschlatter@morrislaing.com
Attorneys for Merit Energy Company, LLC

VERIFICATION

STATE OF KANSAS)
) ss:
COUNTY OF SEDGWICK)

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

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

Jonathan A. Schlatter

SIGNED AND SWORN to before me this 20th day of June, 2024.

Notary Public

My Appointment expires: 11/05/2024

CAROL A. HANNON
Notary Public - State of Kansas
My Appt. Expires 11/05/2024

EXHIBIT A

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

Unit Area and Tracts

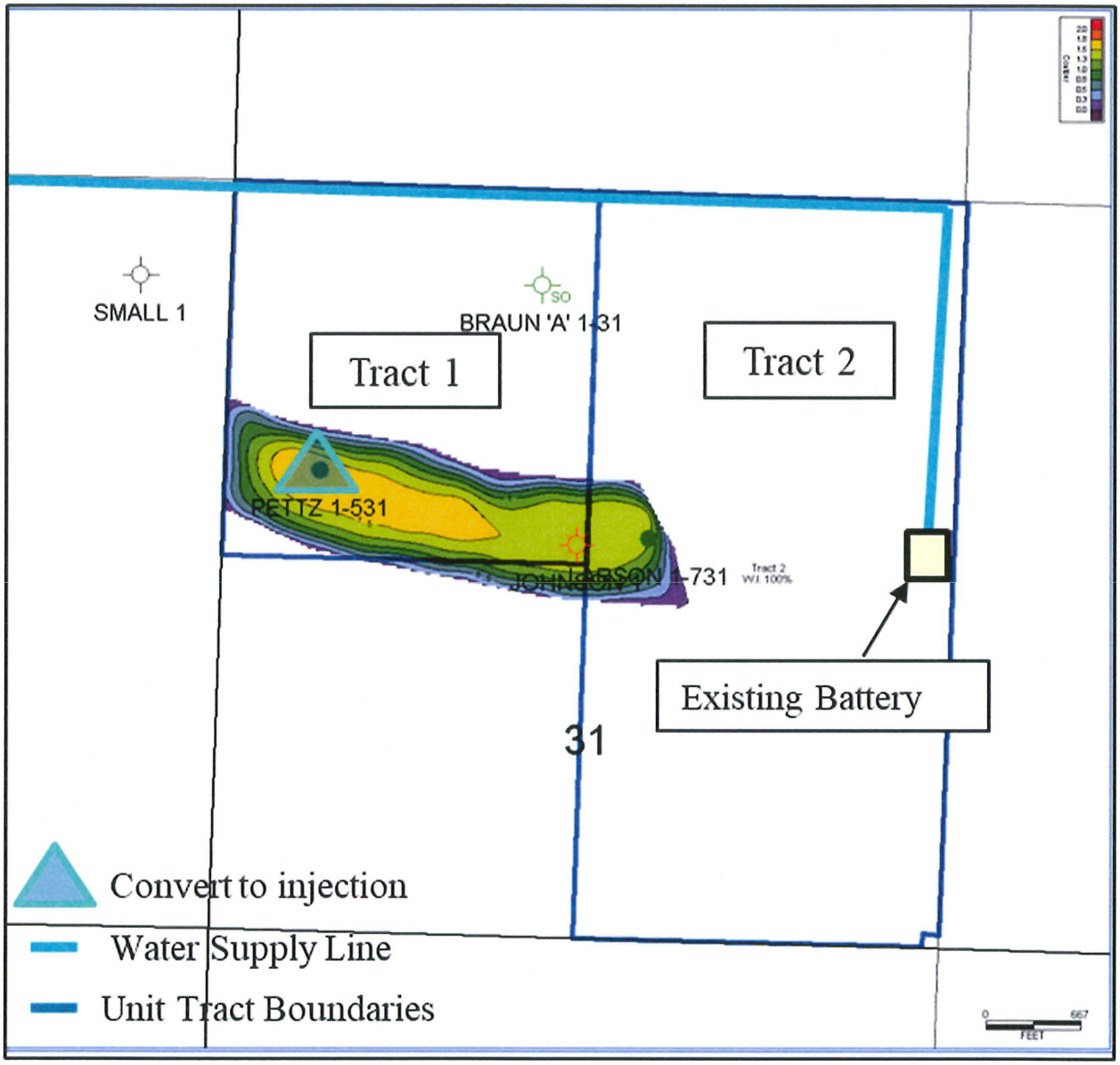

EXHIBIT B

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

Unit Agreement

ATTACHED

UNIT AGREEMENT
FARMERS DITCH UNIT (FDU)

NW/4 and E/2 of Section 31-23S-33W

Unit Size: 480 acres

FINNEY COUNTY, KANSAS

Effective Date: _____

UNIT AGREEMENT:
FARMERS DITCH UNIT (FDU)
FINNEY COUNTY, KANSAS

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UNIT AGREEMENT
FARMERS DITCH UNIT (FDU)
FINNEY COUNTY, KANSAS

THIS UNIT AGREEMENT ("**Agreement**") is entered into effective as of the Effective Date (defined below), by the Parties who have signed the original, a counterpart, or other instrument agreeing to become a Party hereto, or who are so bound by Order of the State Corporation Commission of the State of Kansas ("**Commission**") issued pursuant to K.S.A. 55-1301, et seq.

WITNESSETH:

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

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

ARTICLE 1
DEFINITIONS

As used in this Agreement:

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

1.2 **Oil 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 Formations.

1.4 **Party** is any individual, corporation, company, partnership, limited 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 Formations, and enters into this Agreement or otherwise becomes bound by this Agreement.

1.5 **Royalty Interest** is a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest, or overriding royalty interests and other like interests which are carved out of the oil and gas leasehold estate.

1.6 **Royalty Owner** is a Party hereto who owns a Royalty Interest.

1.7 **Tract** is the land described as such and depicted and identified by number in "Exhibit 1."

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

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

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

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

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

1.13 **Unit Operating Agreement** is the agreement entered into, if applicable, by the Working Interest Owners and the operator thereof, having the same Effective Date as this Agreement, and titled "Farmers Ditch Unit Operating Agreement." The Unit Operating Agreement and this Agreement constitute the Plan for Unit Operations.

1.14 **Unit Operator** is the Party designated as the operator under the Unit Operating Agreement.

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

1.16 **Unitized Formations** means the subsurface portion of the Unit Area described as the common source of supply of oil underlying the Unit Area formations. The top of the unitized interval is defined as the top of the Morrow shale formation, found at a measured depth of 4,660 feet in the Larson 1-731 well (API 15-055-21744). The base of the unitized interval is defined as the top of the St. Genevieve Limestone formation, found at a measured

depth of 4,754 feet in the same well. With it being intended that the covered depths include all stratigraphic equivalents between the Morrow Shale and the St. Genevieve Limestone formations.

1.17 Unitized Substances are all oil and gas and associated and constituent parts, including casinghead or solution gas, within or produced from the Unitized Formations, other than Outside Substances.

1.18 Working Interest is an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, the owner of which is obligated to pay, either in cash or out of production or otherwise, all or a portion of 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.

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

ARTICLE 2
EXHIBITS

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

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

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

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

2.1.4 "Exhibit 4" is a tabulation of the owners of the production proceeds of Unitized Substances that will be credited to royalties (referred to therein as "Royalty Owners").

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

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

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

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

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

ARTICLE 3
CREATION AND EFFECT OF UNIT

3.1 Oil and Gas Rights Unitized. All Oil and Gas Rights of Royalty Owners in and to the lands depicted in "Exhibit 1" and described in "Exhibit 2", and all Oil and Gas Rights of the Working Interest Owners 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 Owners, as lessees, and as if the lease contained all of the provisions of this Agreement.

3.2 Personal Property Excepted. All Unit Equipment, including lease and well equipment, materials, and other property, heretofore or hereafter placed by the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. Title to all equipment, materials and other property installed or in place on the Unit Area prior to the Effective Date, and which is contributed by the owners thereof for use in conducting Unit Operations shall remain vested with the Parties contributing such property for Unit Operations.

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, insofar and only insofar as it relates to the Unitized Formations described in Article 1.16 above. Further, any provision in any such oil and gas lease that requires the lessee to restore or re-establish production of oil and gas after a cessation of production from the lease 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 all Tracts hereunder, and such production or operations shall continue in effect each lease, term mineral interest or royalty interest as to all lands and formations covered thereby just as if such operations were conducted on and as if a well were producing from each Tract.

3.5 Titles Unaffected by Unitization. Nothing herein shall be construed to result in the transfer of title to Oil 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 Owners 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 together with the right to drill, use, and maintain injection and disposal wells, and non-potable water supply wells on the Unit Area, including as provided in Article 10.2, and to use for injection, disposal or water supply purposes any nonproducing or abandoned wells or dry holes, and any producing wells completed in the Unitized Formations, or which can be recompleted into the Unitized Formations.

3.7 Development Obligation. Nothing herein shall relieve the Working Interest Owners from any obligation to reasonably develop the lands and leases committed hereto, insofar and only insofar as it relates to the

Unitized Formations described in Article 1.16 above, except as the same may conflict with the provisions hereof and Unit Operations which may be conducted hereunder.

ARTICLE 4
PLAN OF OPERATIONS

4.1 Unit Operator. MERIT ENERGY COMPANY, LLC is hereby designated as the initial Unit Operator. The 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 Unit Operator 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. The Unit Operator may employ enhanced recovery methods deemed, in its discretion, necessary or desirable to efficiently and economically increase the ultimate recovery of Unitized Substances, and may include any of the following activities:

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

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

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

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

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

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

4.3 Change of Method of Operation. Nothing herein shall prevent the Unit Operator from discontinuing or changing in whole or in part any method of operation which, in its 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 Unit Operator from time to time if determined to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances.

ARTICLE 5
TRACT PARTICIPATIONS

5.1 Tract Participations. The Tract Participations of each Tract are scheduled on "Exhibit 2" and calculated on "Exhibit 3." Beginning on the Effective Date the Unitization of the Tract Participations for each Tract shall be based upon the following factor and formula[1]:

Unit Production will be allocated based upon 2 factors:

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

(2) Cumulative production from each Tract, which is defined as the volume of oil produced by wells within each Tract (beginning from the field's discovery date through the end of September 2023) as a percentage of the total volume of oil produced by all wells on all Tracts (beginning from the field's discovery date through the end of September 2023).

Tract Participations will be calculated using a weighted average of the two factors listed above, wherein the OOIP will be weighted 50% and cumulative production will be weighted 50%.

The Tract Participations as scheduled on "Exhibit 2" and calculated on "Exhibit 3" are accepted and approved by the signatory Parties hereto as being fair and equitable.

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 to one another.

[1] Historic casinghead gas production from the Unitized Formations has been converted to barrels of oil equivalent ("BOE") at the ratio of 6 MCF gas to 1 BO for the purposes of calculating Tract Participations.

ARTICLE 6
ALLOCATION OF UNITIZED SUBSTANCES

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

6.2 Distribution Within Tracts. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the Parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal effect. If any Oil 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 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. 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 Payments. The Unit Operator or the purchaser of Unitized Substances shall be responsible for the payment of all royalties, overriding royalties, production payments and all other payments chargeable against or payable out of the proceeds from the sale of Unitized Substances, or from taking unitized substances in kind. The Unit Operator shall not indemnify any Party against any liability for such payment except to the extent that such liability is caused by or attributable to the willful misconduct of Unit Operator. The Unit Operator shall have complete and sole discretion in determining whether The Unit Operator or the purchaser of Unitized Substances is responsible for any or all of the production payments described herein.

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

6.7 Subsequently Created Interests. A Royalty Interest, overriding royalty or other like interest carved out of a Working Interest after to the Effective Date of this Agreement shall continue to be subject to the obligations of the Working Interest prescribed by this Agreement and the Unit Operating Agreement, of which obligations shall be borne by the Working Interest Owners creating such subsequent interest.

6.8 Overriding Royalty Interests. The production of Unitized Substances attributable to overriding royalty interests or other like interests carved out of the oil and gas leasehold estates shall be allocated and paid pursuant to the terms of this Agreement. Such owners who enter into or who become bound by this Agreement consent and agree to such allocation and hereby approve the Plan of Unit Operations.

6.9 Unit Expense. At all times while this Agreement is in effect, all Unit Expense shall be allocated to, and borne by, the Working Interest Owners in accordance with the Tract Participations.

ARTICLE 7
PRODUCTION AS OF THE EFFECTIVE DATE

7.1 Oil or Liquid Hydrocarbons in Lease Tanks. Unit Operator shall gauge or otherwise determine the amount of oil or other liquid hydrocarbons produced from the Unitized Formations that are in lease tanks as of 9:00 a.m. on the Effective Date, less a reasonable deduction for basic sediment and water ("BS&W"). Any such oil or other liquid hydrocarbons shall remain the property of the Parties entitled thereto as if this Agreement had not been entered into. Any such oil or other liquid hydrocarbons not promptly removed may be sold by Unit Operator

for the account of the Working Interest Owners entitled thereto. The Working Interest Owners shall pay all royalty due thereon under the provisions of applicable leases or other contracts.

ARTICLE 8
USE OR LOSS OF UNITIZED SUBSTANCES

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

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 Party 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 Parties 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, an agreement among the affected parties, or otherwise, whereupon the proceeds so impounded shall be paid to the Party rightfully entitled thereto.

9.3 Payment of Taxes to Protect Title. The owner of surface rights to lands within the Unit Area, or severed mineral interests or Royalty Interests in such lands, or lands outside the Unit Area on which Unit Equipment

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

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

ARTICLE 10
EASEMENTS OR USE OF SURFACE

10.1 Grant of Easements. The 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, including the installation of equipment and other infrastructure necessary for injection of water and other fluids into the Unitization Formations.

10.2 Use of Water and Other Substances. The 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. The Unit Operator may bring Outside Substances, including water, gas and other fluids and other substance, onto the Unit Area for use in Unit Operations and may inject such Outside Substances into the Unitized Formations, by implementing activities including but not limited to those activities authorized in Article 4.2.

ARTICLE 11
CHANGES AND AMENDMENTS

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

ARTICLE 12
RELATIONSHIP OF PARTIES

12.1 No Partnership. The duties, obligations, and liabilities of the Parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, a partnership, joint venture or mining partnership, or to impose a partnership or fiduciary duty, obligation, or liability with regard to any one or more of the Parties hereto. Each Party hereto shall be individually responsible for its own obligations as herein provided.

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

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

ARTICLE 13
LAWS AND REGULATIONS

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

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

ARTICLE 14
FORCE MAJEURE

14.1 Force Majeure. If any Party is rendered unable, wholly or in part, by reason of force majeure to carry out its obligations under this Agreement, other than the obligation to make money payments, such Party shall

give to all other Parties prompt written notice of the force majeure with reasonably full particulars concerning the force majeure. Thereupon, the obligations of the Party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected Party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable, but neither this Agreement nor any lease or other instrument subject hereto shall be terminated by reason of the suspension of Unit Operations due to the occurrence of any event(s) of force majeure. The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the Party involved, contrary to its wishes, and the manner in which all such difficulties shall be handled shall be entirely within the discretion of the Party concerned. The term "force majeure," as here employed, shall mean any act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockage, public riot, lightning, fire, storm, flood, earthquake, explosion, governmental laws, rules, regulations, orders, action, delay, restraint or inaction, unavailability of equipment, or inability to secure materials, or any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the Party claiming suspension.

ARTICLE 15
EFFECTIVE DATE

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

15.2 Ipso Facto Termination. If this Unit is not made effective within twelve (12) months after the date of issuance of the Order of the Commission approving same, because prior thereto the requisite percentage, based

on Unit Participation, of Working Interest Owners and Royalty Owners, have not become Parties to this Agreement, this Agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect. If the Unit Operator seeks from the Commission for good cause an extension of the termination date for a period not to exceed sixty (60) days, and the termination date is so extended, but this Unit is not made effective on or before the extended termination date, this Agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect.

15.3 Notice of Unit. Unit Operator is authorized to file this Unit Agreement of record, or a notice or memorandum thereof, in the office of the Register of Deeds in all Counties in which the Unit Area is situated. In the event this Plan of Unitization is approved by order of the Kansas Corporation Commission, the Unit Operator may cause the Certificate of Unit provided by the Kansas Corporation Commission to be filed of record.

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

ARTICLE 16
TERM

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

16.2 Termination by Unit Operator. This Agreement may be terminated at any time by (i) the affirmative vote of Working Interest Owners who, in the aggregate, are responsible for more than fifty percent (50%) of the Unit Expense, or (ii) for any reason the Unit Operator, in its sole discretion, upon determining 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 Formations 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. Unit

Operator shall gauge or otherwise determine the amount of oil or other liquid hydrocarbons in the unit tanks as of 9:00 a.m. on the date the Unit Operations cease, which oil shall remain the property of the Parties hereto and shall be allocated among the Parties as provided for herein.

16.4 Salvaging Equipment Upon Termination. If not otherwise granted by the leases or other instruments affecting the separate Tracts, the Unit Operator shall have a period of twelve (12) months after the date of termination of this Agreement within which to salvage and remove Unit Equipment.

16.5 Notice of Termination. Upon termination of this Agreement, Unit Operator is authorized to file a notice of record in the office of the Register of Deeds in all Counties in which the Unit Area is situated, to place third parties on notice that the unit has been terminated. In the event, this Plan of Unitization was approved by order of the Kansas Corporation Commission, the Unit Operator is also authorized to notify the Kansas Corporation Commission that it has been terminated, and to file such pleadings, motions, and orders, and other filings as may be required to effectuate the termination of the unit.

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 this Agreement or any such instrument shall have the same effect as if all Persons had signed this Agreement and shall constitute approval of the entire plan for unit operations comprised of this Agreement and the Unit Operating Agreement.

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

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

19.2 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.

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

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

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

ARTICLE 20
SUCCESSORS AND ASSIGNS

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

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

Unit Operator

MERIT ENERGY COMPANY, LLC

By: _____
Name: Christopher S. Hagge
Title: Vice President

STATE OF TEXAS)
) **SS**
COUNTY OF DALLAS)

This instrument was acknowledged before me on this _____ day of _____, 2023, by Christopher S. Hagge, as Vice President of Merit Energy Company, LLC, on behalf of said company.

_____
Notary Public

Working Interest Owners:

MERIT HUGOTON, L.P.

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

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

STATE OF TEXAS)
) **SS**
COUNTY OF DALLAS)

This instrument was acknowledged before me on this _____ day of _____, 2023, by Christopher S. Hagge, as Vice President of Merit Management Partners GP, LLC, the General Partner of Merit Hugoton, L.P., a Delaware limited partnership, on behalf of said company and partnership.

_____
Notary Public

EIGER RESOURCES, LLC

By: _____
Name: Mickey Friedrich
Title: President and CEO

STATE OF TEXAS)
) **SS**
COUNTY OF DALLAS)

This instrument was acknowledged before me on this _____ day of _____, 2023, by Mickey Friedrich as President and CEO of Eiger Resources, LLC, a Texas limited liability company, on behalf of said company.

_____
Notary Public

ROYALTY OWNERS:

Name **Date Signed**

SH OIL & GAS, LLC

By: _____ _____

As: _____

BRENDA HARDER

By: _____ _____

JEFFREY PETTZ

By: _____ _____

RHONDA KRAFT

By: _____ _____

CHRISTOPHER PETTZ

By: _____ _____

THE EXEMPT TRUST SHARE OF ANDREW E. LARSON, JR., A SEPARATE TRUST SHARE ESTABLISHED BY THE ANDREW E. LARSON, SR. TRUST, DATED DECMBER 31, 2010

By: _____ _____

As: _____

KARIN M. HENKLE REVOCABLE TRUST DATED DECEMBER 18, 1986

By: _____ _____

As: _____

ACKNOWLEDGEMENTS:

STATE OF _____)
) **SS**
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2023, by _____, as _____ of **SH OIL & GAS, LLC.**

_____
Notary Public

STATE OF _____)
) **SS**
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2023, by **BRENDA HARDER.**

_____
Notary Public

STATE OF _____)
) **SS**
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2023, by **JEFFREY PETTZ.**

_____
Notary Public

STATE OF _____)
) **SS**
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2023, by **RHONDA KRAFT.**

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2023, by **CHRISTOPHER PETTZ.**

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2023, by _____, as _____ of **THE EXEMPT TRUST SHARE OF ANDREW E. LARSON, JR., A SEPARATE TRUST SHARE ESTABLISHED BY THE ANDREW E. LARSON, SR. TRUST, DATED DECMBER 31, 2010.**

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 2023, by _____, as _____ of **KARIN M. HENKLE REVOCABLE TRUST DATED DECEMBER 18, 1986.**

_____
Notary Public

EXHIBIT "1"
UNIT BOUNDARY MAP

FARMERS DITCH UNIT (FDU)
TRACT #1: (NW/4) Sec. 31-23S-33W
TRACT #2: (E/2) Sec. 31-23S-33W
Unit Size: 480 acres
FINNEY COUNTY, KANSAS

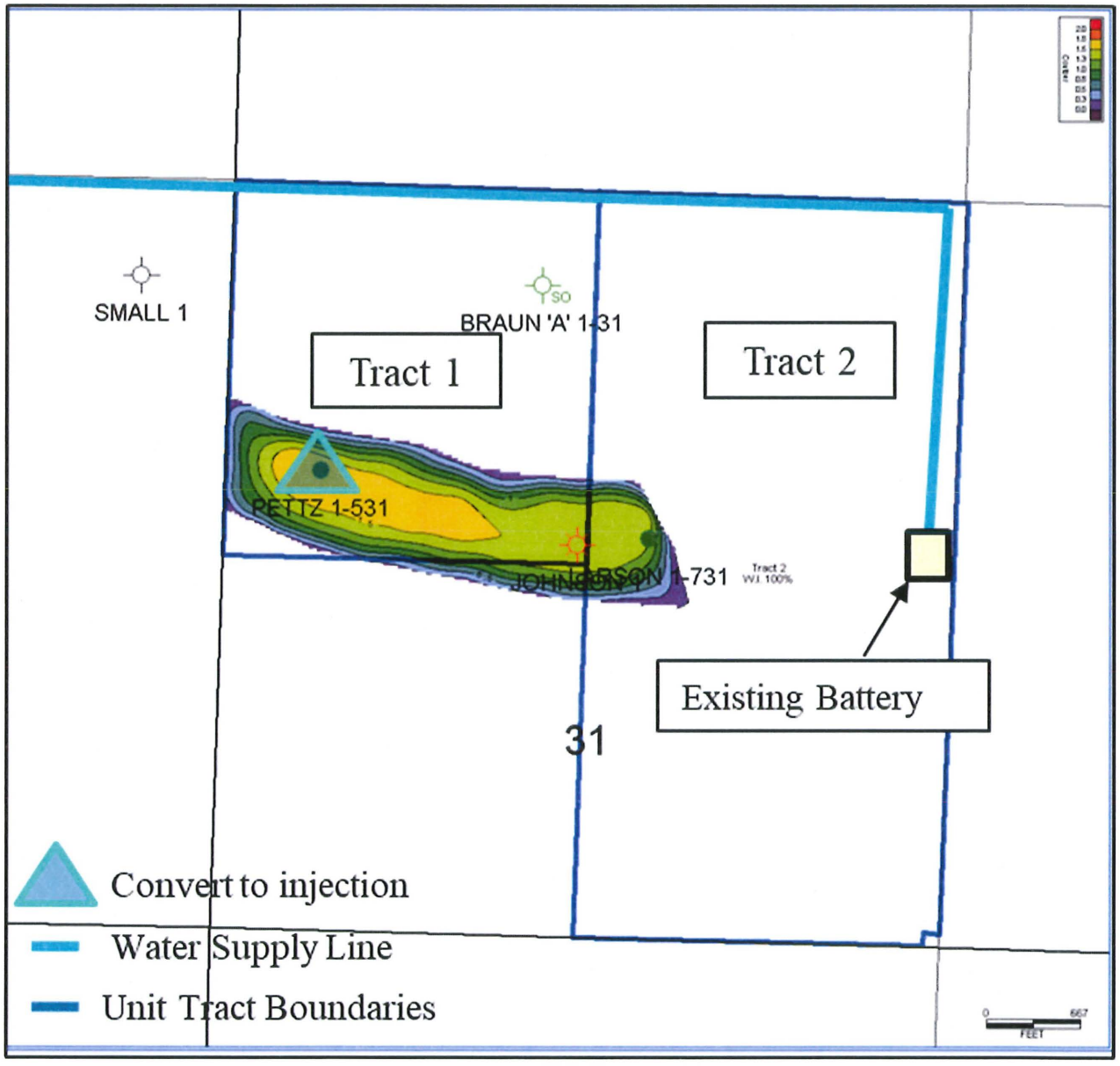


EXHIBIT "2"
TRACT PERCENTAGE PARTICIPATION
FARMERS DITCH UNIT (FDU) - FINNEY COUNTY, KANSAS

Tract Number:	Legal Description:	Acres:	Tract Participation:
1	(NW/4) Sec. 31-23S-33W Finney County, KS	160	47.74%
2	(E/2) Sec. 31-23S-33W Finney County, KS	320	52.26%
	TOTALS:	**480**	**100.00%**

EXHIBIT "3"

CALCULATION OF TRACT PARTICIPATION FACTORS

FARMERS DITCH UNIT (FDU) - FINNEY COUNTY, KANSAS

Tract Participation:

Farmers Ditch Unit Waterflood Unitization		Tract Variables				Tract Allocation		Tract Participation
Participation Factor Weighting %		-----	-----	50.0%	50.0%	% of Subtotal for Each Variable		
Tract No.	Legal Description	Usable Wellbores	Acreage, ac.	Original Oil in Place (Thousands of bbls)	Cumulative Production (Thousands of bbls)	Original Oil in Place	Cumulative Production	
Tract 1	NW4 Sec. 31-23S-33W	1	160	76	99.5	17.25%	78.22%	47.74%
Tract 2	E/2 Sec. 31-23S-33W	1	320	364	27.7	82.75%	21.78%	52.26%
Unit Total		**2**	**480**	**440**	**127.2**	**100%**	**100%**	**100%**

The Tract Variables are rounded to the nearest Mmbo. The Tract Allocations and Tract Participations reflect percentages calculated based upon the Tract Variables prior to being rounded.

EXHIBIT "4"

ROYALTY OWNERS

FARMERS DITCH UNIT (FDU) - FINNEY COUNTY, KANSAS

TRACT #:	LEGAL DESCRIPTION:	ROYALTY OWNERS:	UNIT NRI:	ADDRESS:
1	(NW/4) Sec. 31-23S-33W	SH OIL & GAS, LLC	2.9836%	1402 MEL'S DRIVE GARDEN CITY, KS 67846
1	(NW/4) Sec. 31-23S-33W	BRENDA HARDER	0.7459%	c/o CHRISTOPHER PETTZ PO BOX 31 DEERFIELD, KS 67838
1	(NW/4) Sec. 31-23S-33W	JEFFREY PETTZ	0.7459%	c/o CHRISTOPHER PETTZ PO BOX 31 DEERFIELD, KS 67838
1	(NW/4) Sec. 31-23S-33W	RHONDA KRAFT	0.7459%	c/o CHRISTOPHER PETTZ PO BOX 31 DEERFIELD, KS 67838
1	(NW/4) Sec. 31-23S-33W	CHRISTOPHER PETTZ	0.7459%	PO BOX 31 DEERFIELD, KS 67838
Tract 1 Total:			**5.9672%**	
2	(E/2) Sec. 31-23S-33W	THE EXEMPT TRUST SHARE OF ANDREW E. LARSON, JR., A SEPARATE TRUST SHARE ESTABLISHED BY THE ANDREW E. LARSON, SR. TRUST, DATED DECMBER 31, 2010.	3.5931%	3510 N LITTLE LOWE RD. GARDEN CITY, KS 67846
2	(E/2) Sec. 31-23S-33W	KARIN M. HENKLE REVOCABLE TRUST DATED DECEMBER 18, 1986.	2.9398%	2319 BELMONT PLACE GARDEN CITY, KS 67846
Tract 2 Total:			**6.5328%**	
		UNIT TOTAL:	**12.5000%**	

EXHIBIT "5"

WORKING INTEREST OWNERS

FARMERS DITCH UNIT (FDU) - FINNEY COUNTY, KANSAS

TRACT #:	LEGAL DESCRIPTION:	WORKING INTEREST OWNERS:	UNIT WI	UNIT NRI:	ADDRESS:
1	**(NW/4) Sec. 31-23S-33W**	MERIT HUGOTON, L.P.	43.0113%	37.6349%	13727 Noel Road, Suite 1200 Dallas, TX 75240
1	**(NW/4) Sec. 31-23S-33W**	EIGER RESOURCES, LLC	4.7260%	4.1352%	2525 Knight Street, Suite 300 Dallas, TX 75219
Tract 1 Total			**47.7373%**	**41.7702%**	
2	**(E/2) Sec. 31-23S-33W**	MERIT HUGOTON, L.P.	47.0887%	41.2026%	13727 Noel Road, Suite 1200 Dallas, TX 75240
2	**(E/2) Sec. 31-23S-33W**	EIGER RESOURCES, LLC	5.1740%	4.5273%	2525 Knight Street, Suite 300 Dallas, TX 75219
Tract 2 Total			**52.2627%**	**45.7298%**	
		UNIT TOTAL:	**100%**	**87.50%**	

EXHIBIT C

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

Operating Agreement

ATTACHED

UNIT OPERATING AGREEMENT
FARMERS DITCH UNIT (FDU)

Unit Size: 480 acres

FINNEY COUNTY, KANSAS

Effective Date: _____

UNIT OPERATING AGREEMENT
(OPERATING PLAN)
FARMERS DITCH UNIT
FINNEY COUNTY, KANSAS

THIS AGREEMENT is entered into as of the ____ day of _____ 2024.

WITNESSETH:

WHEREAS, an agreement entitled "Unit Agreement, Plan of Unitization, Farmers Ditch Unit, Finney County, Kansas", herein referred to as "Unit Agreement" has been made which, among other things, provides for a separate agreement to govern Unit Operations as therein defined.

NOW, THEREFORE, it is provided as follows:

ARTICLE 1
CONFIRMATION OF UNIT AGREEMENT

1.1 **Confirmation of Unit Agreement.** The Unit Agreement is hereby confirmed and by reference made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern. This Agreement shall supersede all existing agreements by and among the parties hereto covering the Unit Area to the extent that the provisions of such existing agreements conflict with the provisions of this Agreement.

ARTICLE 2
EXHIBITS

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

2.1.1 **Exhibits "A-1 through A-5"**, as described in the Unit Agreement.

2.1.2 **Exhibit "B"**, attached hereto, this is the Form of Lease.

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

2.1.4 **Exhibit "D"**, attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.5 **Exhibit "E"**, attached hereto, contains the Development Plan.

2.2 **Reference to Exhibits.** When reference is made herein to an Exhibit, it is to the original Exhibit or, if revised, to the last revision.

ARTICLE 3
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 **Overall Supervision.** Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations. In the exercise of such authority, each Working Interest Owner shall act solely 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 any type of pressure maintenance, secondary recovery, tertiary recovery or other recovery program to be employed.

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

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

3.2.4 **Unit Operator's Tools and Equipment.** The use by Unit Operator of its own tools and equipment in the drilling of a well or in any other operation. The charges by Unit Operator, for use of tools, equipment or crews which are owned, fully or partially by Unit Operator or a related party thereof, shall not unreasonably exceed the prevailing rates in the area, and any such work shall be performed under the same general terms and conditions as are customary and usual in the area under contracts of independent contractors who are doing work of a similar nature.

3.2.5 **Expenditures.** The making of any single expenditure in excess of One Hundred and Fifty Thousand Dollars ($150,000.00); however, approval by Working Interest Owners of the drilling, reworking, conversion, 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.

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

3.2.7 **Audit Exceptions.** The settlement of unresolved audit exceptions.

3.2.8 **Inventories.** The taking of periodic inventories as provided by Exhibit "C".

3.2.9 **Technical Services.** The authorizing of charges to the Joint Account for services by consultants or Unit Operator's technical personnel not covered by the charges provided by Exhibit "C".

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

3.2.11 **Changes and Amendments.** The amending of this Agreement, or as provided for in Article 11 of the Unit Agreement, the amending of the Unit Area.

3.2.12 **Investment Adjustments.** The adjustment and readjustment of investments.

3.2.13 **Termination of Unit Agreement.** The termination of the Unit Agreement as provided therein.

ARTICLE 4
MANNER OF EXERCISING SUPERVISION

4.1 **Designation of Representatives.** Each Working Interest Owner shall inform Unit Operator in writing of the 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 Owner having a total Unit Working Interest of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached, provided, however, any such meeting may be requested by Unit Operator or such Working Interest Owners upon 48-hours' notice where an emergency situation exists. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

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

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

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 one (1) or more Working Interest Owner or Owners having a combined voting interest of more than fifty-five percent (55%) of the total Unit Working Interest.

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

4.3.4 **Poll Votes.** Working Interest Owners may vote by letter or facsimile on any matter submitted in writing to all Working Interest Owners. If a meeting is not called, as provided in Article 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or facsimile shall control. Failure by a Working Interest Owner to vote on any matter submitted in writing to the Working Interest Owners, within twenty (20) days from receipt of such proposal, shall be deemed a vote approving the matter. Unit Operator shall give prompt notice of the results of such voting to each Working Interest Owner.

4.3.5 **Approved Action Binding Upon All Parties.** Any action, determination or decision which has been approved by the Working Interest Owners pursuant to this Article 4 shall be binding upon each and every Working Interest Owner, even though any such owner has not voted, or has voted to the contrary.

ARTICLE 5
INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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

5.2.3 **Audits.** The right to audit the accounts of Unit Operator pertaining to Unit Operations according to the provisions of Exhibit "C".

ARTICLE 6
UNIT OPERATOR

6.1 **Unit Operator.** Merit Energy Company, LLC is hereby designated as the initial Unit Operator.

6.2 **Resignation.** Unit Operator, or any successor Unit Operator, may resign at any time by giving written notice to the Working Interest Owners. Such resignation shall not become effective for a period of three (3) months, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

If Unit Operator terminates its legal existence, becomes insolvent, bankrupt, or is placed in receivership, or is no longer capable of serving as Unit Operator, Unit Operator shall be deemed to have resigned without any action except the selection of a successor Unit Operator in the manner set forth in Article 6.3. A change of corporate name or structure by Merit Energy Company, LLC, a transfer of operations by Merit Energy Company, LLC to one or more affiliated, subsidiary or

parent corporation(s), or any merger by Merit Energy Company, LLC, shall not be the basis for its resignation as Unit Operator hereunder.

6.3 **Selection of Successor.** Upon the resignation of Unit Operator, a successor Unit Operator shall be selected by the affirmative vote of one (1) or more Working Interest Owner or Owners having a combined voting interest of more than fifty-five percent (55%) of the Unit Working Interest.

ARTICLE 7
AUTHORITY AND DUTIES OF UNIT OPERATOR

7.1 **Exclusive Right to Operate Unit.** Subject to the provisions of this Agreement, 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 damages, unless such damages result from its gross negligence or willful misconduct.

7.3 **Liens and Encumbrances.** Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations.

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.

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

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

7.7 **Engineering and Geological Information.** Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.8 **Expenditures.** Unit Operator is authorized to make single expenditures not in excess of One Hundred and Fifty Thousand Dollars ($150,000.00) without prior approval of Working Interest Owners. In the event of an emergency, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.9 **Border Agreements.** Unit Operator may, after approval by Working Interest Owners, enter into border agreements with respect to land adjacent to the Unit Area for the purpose of coordinating operations.

ARTICLE 8
TAXES

8.1 **Property and Ad Valorem Taxes.** Beginning with the first rendition due after the Effective Date hereof, Unit Operator shall amend and file all necessary property and 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. Unit Operator shall collect or cause to be collected from each Working Interest Owner all such taxes.

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.

8.3 **Income Tax Election.** It is agreed that the provisions of this agreement are not intended to create, and shall not be considered or construed as creating, a joint venture, mining or other partnership, and that each Working Interest Owner shall only be liable for its proportionate

share of any costs, losses and expenses incurred pursuant to the provisions hereof. If, for Federal Income Tax purposes, this Agreement and the operations hereunder are regarded as a partnership, then each Person hereby affected elects to be excluded from the application of all of the provisions of Sub-chapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as amended, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is authorized and directed to execute on behalf of each Person hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations. Should there be any requirement that each Person hereby affected give further evidence of this election, each such Person shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such Person shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Unit Area is located or future income tax laws of the United States contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as amended, under which an election similar to that provided by Section 761 of the Code is permitted, each Person hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such Person states the income derived by such Person from Unit Operations can be adequately determined without the computation of partnership taxable income.

ARTICLE 9
INSURANCE

9.1 **Insurance.** Unit Operator, with respect to Unit Operations, shall:

(a) comply with the Workman's Compensation Laws of the state of Kansas,

(b) comply with the Employer's Liability and other insurance requirements of the laws of the state of Kansas, and

(c) provide insurance or other protection as set forth in Exhibit "D", subject to the provisions thereof.

ARTICLE 10
ADJUSTMENT OF INVESTMENTS

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

10.1.1 **Wells.** All wells completed in the Unitized Formation.

10.1.2 **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 Unit Operator determines is necessary or desirable for conducting Unit Operations. Unit Operator shall have up to one hundred twenty (120) days subsequent to the commencement date of injection within which to make all such determinations. Upon Unit Operator determining that any equipment is surplus, such equipment shall be returned to the operator for the Working Interest Owners who delivered same to Unit Operator, and such equipment shall not be considered to have been taken over under this Article.

10.1.3 **Records.** A copy of all production and well records for such wells; and any other pertinent information and records requested by Unit Operator.

10.2 **Inventory and Evaluation.** An Inventory Committee shall, at Unit Expense, inventory and evaluate the personal property taken over and shall submit such inventory to the Working Interest Owners for approval.

10.2.1 **Equipment and Materials.** The inventory and evaluation shall include, but shall not be limited to, those items of equipment and material normally considered controllable by operators of oil and gas properties, excluding casing, as indicated in the latest revision of the Material Classification Manual by the Council of Petroleum Accountants Societies of North America.

10.2.2 **Non-Usable and Junk Equipment.** Non-usable and junk equipment and

material will not be taken over by Unit Operator, but such items will remain the property of the Working Interest Owner(s) owning same prior to the Effective Date. Such Working Interest Owner(s) shall be responsible for the disposal of such non-usable and junk equipment and other materials within thirty (30) days of written request by Unit Operator. In the event such Working Interest Owner(s) does/do not dispose of such equipment within the aforedescribed time period, Unit Operator shall dispose of such equipment and invoice the individual Working Interest Owner(s) owning same for the cost of disposal, which invoice shall, as to such Working Interest Owner(s), be considered an item of Unit Expense.

10.2.3 **Loaned Equipment Provision.** Unit Operator shall have the use of such items of equipment not needed in the conduct of Unit Operations under this Agreement, but necessary to continue operating practices employed prior to the Effective Date. All lease and well equipment not required for Unit Operations, and which will not be evaluated as provided herein, including that equipment retained by Unit Operator, shall be returned within one hundred twenty (120) days subsequent to the commencement date of injection to the Working Interest Owner(s) who owned same prior to the Effective Date.

10.2.4 **Inventory Expense.** The cost of performing and compiling the physical inventory shall be an item of Unit Expense. The costs incurred by employees of the individual Working Interest Owners in witnessing the physical inventory or participating on the Inventory Committee shall be borne by such Working Interest Owners.

10.3 **Investment Adjustment.** Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all wells, equipment and materials taken over under Article 10.1, and shall be charged with an amount equal to that obtained by multiplying the total value of all wells, equipment and materials taken over under Article 10.1 by such Working Interest Owner's Unit Working Interest. 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 warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be negotiated by the Unit Operator.

10.5 **Ownership of Property and Facilities.** Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, in all personal property and facilities acquired by the Unit Operator pursuant to this Agreement equal to its Unit Working Interest.

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 of Unit Expense, including all capital expenditures, shall be the same as its Unit Working Interest, except for Unit operating expenses, which shall be limited to all costs and expenses incurred in the daily operation and routine maintenance of the Unit Area (including the monthly producing well overhead charges set out in Exhibit "C"), which shall be determined on the basis of the Tract Participation then in effect. All charges, credits and accounting for Unit Expense shall be in accordance with Exhibit "C".

11.2 **Advance Billings.** Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 1st day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within thirty (30) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.4 **Unpaid Unit Expense.** If any Working Interest Owner fails or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, the unpaid balance shall, if Unit Operator so elects, be paid to Unit Operator by the non-defaulting Working Interest Owners as if it were Unit Expense, in the proportion that the Unit Working Interest of each such non-defaulting Working Interest Owner bears to the total Unit Working Interest owned by all such non-defaulting Working Interest Owners. Such unpaid amount shall bear interest at the maximum rate permitted by applicable usury laws. Working Interest Owners so paying the same shall be reimbursed therefor, together with interest thereon, when the amount so carried and the interest thereon are collected from the Working Interest Owner primarily chargeable therewith. The amount carried shall be due and payable out of the proceeds from the defaulting Working Interest Owner's share of Unit sales. During the time that any Working Interest Owner fails to pay its share of Unit Expense, the Unit Operator shall be entitled to collect and receive from the purchaser the proceeds from such Working Interest Owner's share of the Unit sales and any such purchaser shall be entitled to rely, without liability, upon Articles 11.4 and 11.5 hereof as full and complete authorization to release such funds to Unit Operator, and, further, to rely, without liability, upon Unit Operator's statement of any and all amounts due from such Working Interest Owner. All credits to any such defaulting Working Interest Owner on account of the sale or disposal of Unit Equipment, or otherwise, shall also be applied against the unpaid share of Unit Expense charged against such Working Interest Owner.

11.5 **Security Rights.** In addition to any other security rights and remedies provided for by the laws of the State of Kansas with respect to services rendered, or materials and equipment furnished under this Agreement, each Working Interest Owner grants to Unit Operator a first and prior lien upon each Working Interest including its Oil and Gas Rights in the Unit Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment to secure payment of its share of Unit Expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and obtaining of a judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of oil and gas until the amount owed by such Working Interest Owner, plus interest, has been paid. This paragraph shall serve as legal notice to any purchaser of oil and/or gas of Unit Operator's right to collect proceeds when accompanied by Unit Operator's written statement concerning the amount of any default.

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

11.6 **Default.** In addition to the foregoing, in the event a Working Interest Owner fails to pay any billing within sixty (60) days of its receipt of invoice, Unit Operator shall have the option at any time thereafter while such billing remains unpaid to notify said Working Interest Owner of Unit Operator's intention to deem said Working Interest Owner as a Non-Consenting Working Interest Owner under the provisions of Article 20.1 below in the event payment of such billing is not made. Any such notice by Unit Operator shall be sent by certified mail, return receipt requested, and shall provide the notified Working Interest Owner fifteen (15) days from receipt of the notice in which to make payment. Upon failure of said Working Interest Owner to pay in full within the fifteen (15) day period, Unit Operator shall notify said Working Interest Owner that it has been deemed a Non-Consenting Working Interest Owner under the provisions of Article 20.1.

11.7 **Carved-out Interests.** Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest shall be subject to this Agreement. If a Working Interest Owner does not pay its share of Unit Expense and the proceeds from the sale of Unitized Substances are insufficient for that purpose, the security rights provided for in this Unit Operating Agreement may be applied against such carved-out interests with which such Working Interest is burdened. In such event, the owner of such carved-out interest shall be subrogated to security rights granted by Article 11.5.

ARTICLE 12
NONUNITIZED FORMATIONS

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

ARTICLE 13
TITLES

13.1 **Warranty and Indemnity.** Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibit "A-3", of this Agreement, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of 7:00 A.M. Central Standard Time on the first day of the calendar month in which such failure is finally determined and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 **Failure because of Unit Operations.** The failure of title of any Working Interest in any Tract by reason of Unit Operations, including non-production from such Tract, shall not change the Unit Working Interest of the Working Interest Owner whose title failed in relation to the Unit Working Interest of the other Working Interest Owners at the time of the title failure.

13.3 **Individual Loss.** Any Working Interest Owner whose title fails shall alone bear the loss, and hereby expressly agrees to indemnify all other Working Interest Owners, against any claim for damages arising from such failure which may be asserted against them. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder, except failure that may be caused by or results from the gross negligence or willful misconduct of Unit Operator.

ARTICLE 14
LIABILITY, CLAIMS AND SUITS

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

14.2 **Settlements.** Unit Operator may settle any single claim or suit involving Unit Operations if the expenditure does not exceed Fifty Thousand Dollars ($50,000.00). If the amount required for settlement exceeds the above amount, Working Interest Owners shall determine the further handling of the claim or suit. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner 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.

14.3 **Notice of Loss.** Unit Operator shall make its best efforts to report to Working Interest Owners as soon as practicable after each occurrence, damage or loss to Unit Equipment, and each accident, occurrence, claim, or suit involving third party bodily injury or property damage exceeding Fifty Thousand Dollars ($50,000.00), but shall have no liability for failure to do so.

14.4 **Force Majeure.** Any obligation imposed by this Agreement on each Person, except for the payment of money, shall be suspended while compliance therewith is prevented, in whole or in part, by a strike, fire, war, civil disturbance, act of God; by Federal, state or municipal laws; by any rule, regulation or order of a governmental agency; by inability to secure material or by any other cause beyond the reasonable control of such Person. No Person shall be required against its will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other

instrument subject thereto shall be terminated by reason of suspension of Unit Operations due to any of the causes set forth in this Article.

ARTICLE 15
NONDISCRIMINATION

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

ARTICLE 16
NOTICES

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

16.2 **Notice of Transfer of Title.** A Working Interest Owner transferring, assigning or conveying all or any part of its interest in and to its Oil and Gas Rights shall notify Unit Operator of such transfer, assignment or conveyance within fifteen (15) days of the effective date of such transfer, assignment or conveyance. No change of title shall be binding upon the Unit or Unit Operator until the first day of the calendar month following the month of receipt by Unit Operator of evidence, satisfactory to Unit Operator, of such change of ownership. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the party or parties acquiring such interest the obligations of the predecessor in interest with respect to the interest so transferred and shall likewise operate to give and grant the party or parties acquiring such interest all benefits attributable hereunder to such interest.

ARTICLE 17
WITHDRAWAL OF WORKING INTEREST OWNER

17.1 **Withdrawal.** A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw, all of 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, including, but not limited to any and all environmental liability or remedial obligations. 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 Working Interest. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, less its share of the estimated cost of salvaging same, the estimated cost of plugging and abandoning all wells then being used or held for Unit Operations, estimated environmental liability, if any, and the estimated cost of all environmental remediation in the Unit Area, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvaged equipment is less than such owner's share of such estimated liability and 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 rendering of such final statement by the Unit Operator as of such effective date, the withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

17.2 **Limitation on Withdrawal.** Notwithstanding anything set forth in Article 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of eighteen and twenty-five hundredths percent (18.25%), unless the other Working Interest Owners are willing to accept the assignment and agree to accept the Working Interest subject to

such burdens.

ARTICLE 18
ABANDONMENT OF WELLS

18.1 **Rights of Former Owners.** If Working Interest Owners determine to 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 sixty (60) days after the sending of such notice 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 the Working Interest Owners to be the net salvage value of the casing and equipment, through the wellhead, in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation, and upon abandonment to plug the well and complete all environmental remediation relative to the well and the surface utilized in conjunction therewith in compliance with applicable laws and regulations. A failure to respond to notice within the sixty (60) day period set forth hereunder shall be deemed an election by the Working Interest Owners of said Tract not to take over the said well.

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

ARTICLE 19
EFFECTIVE DATE AND TERM

19.1 **Effective Date.** This Agreement shall become effective when the Unit Agreement becomes effective and the Certificate of Establishment of Unit Area Farmers Ditch Unit has been filed with the Register of Deeds in Finney County, Kansas by the Unit Operator.

19.2 **Term.** This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 21; (b) all Unit Equipment and real property acquired for the Joint Account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) all amounts owed to Unit Operator by any Person have been fully paid including accrued interest; and (d) there has been a final accounting.

ARTICLE 20
NON-CONSENTING WORKING INTEREST OWNERS

20.1 **Non-Consent.** Any Working Interest Owner who does not execute this Unit Operating Agreement prior to the Effective Date shall be deemed to have elected not to participate in Unit Operations. Each such Working Interest Owner (hereinafter referred to as "Non-Consenting Working Interest Owner"), shall be deemed to have relinquished to the Working Interest Owners who have executed this Unit Operating Agreement (hereinafter referred to as "Committed Working Interest Owners"), as of the Effective Date, and the Committed Working Interest Owners shall own and be entitled to receive, in proportions as hereinafter set forth, all of each such Non-Consenting Working Interest Owner's share of the Oil and Gas Rights in the Unit and share of production therefrom until the proceeds of sale of such share, calculated at the well (after deducting production taxes, excise taxes, royalty, overriding royalty and other interest payable out of or measured by the production from the Unit accruing with respect to such interest until it reverts) shall equal the total of the following:

a. 100% of each Non-Consenting Working Interest Owner's share of the cost and expense of any acquired surface equipment beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment, surface injection equipment and piping), plus 100% of each such Non-Consenting Working Interest Owner's share of the cost of Unit Operations, together with interest thereon at the maximum rate permitted by the applicable usury laws of the State of Kansas, plus attorney's fees, court costs, and other costs in connection with the collection of the unpaid balance, if any, and;

b. 300% of each such Non-Consenting Working Interest Owner's share of the costs and expenses of staking, wellsite preparation, drilling (production and/or injection wells), reworking, deepening, plugging back, testing, completing, converting existing wells to injection wells, and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), together with interest thereon at the maximum rate permitted by the applicable usury laws of the State of Kansas, plus attorney's fees, court costs and other costs in connection with the collection of the unpaid balance, if any.

Each month, the Unit Operator shall be reimbursed by the Committed Working Interest Owners for the share of Unit Expense chargeable to a Non-Consenting Working Interest Owner. Each Committed Working Interest Owner's share of the carried interest shall be treated as any other Unit Expense chargeable to such Committed Working Interest Owner and shall be in the ratio that such Committed Working Interest Owner's interest bears to the total interest of the Committed Working Interest Owners.

Recovery by the Committed Working Interest Owners of the monies advanced on behalf of a Non-Consenting Working Interest Owner, plus penalty as aforesaid, shall be recoverable from such Non-Consenting Working Interest Owner's share of production.

Any Working Interest Owner deemed non-consent under the provisions of Article 11.6 shall be deemed to have elected not to participate in Unit Operations from and after the date from which said Working Interest Owner has failed to pay its share of Unit Expense. Such Working Interest Owner shall thereafter be subject to the penalties and interest charges as set forth above on all unpaid Unit Expense.

Notwithstanding the foregoing, Unit Operator shall have the option, but not the obligation, to elect to assume the interest of any Non-Consenting Working Interest Owners(s) in lieu of having all Committed Working Interest Owners participate. Unit Operator upon such election shall be entitled to recovery of the money advanced on behalf of any Non-Consenting Working Interest Owner(s), plus penalty and interest as provided herein.

ARTICLE 21
ABANDONMENT OF OPERATIONS

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

21.1.1 **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.

21.1.2 **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, through the wellhead, in and on the wells taken over and by agreeing upon abandonment to plug and abandon each well and to assess all environmental liability and complete all environmental remediation relative to the Tract in compliance with applicable laws and regulations.

21.1.3 **Salvaging Wells.** Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned and all environmental remediation to be completed in compliance with applicable laws and regulations.

21.1.4 **Cost of Abandonment.** Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operations in the proportions to their respective Unit Working Interest, and the benefit of such salvage operations shall be credited to the Joint Account.

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

ARTICLE 22
APPROVAL

22.1 **Original, Counterpart, or Other Instrument.** An owner of a Working Interest may approve this Agreement by signing the original, a counterpart thereof, or a ratification agreeing to be bound by the terms hereof, or any other written instrument approving this Agreement. The signing of any such instrument shall have the same effect as if all Working Interest Owners had signed the same instrument.

ARTICLE 23
SUCCESSORS AND ASSIGNS

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

ARTICLE 24
ASSIGNABILITY

24.1 **Limitation on Assignment.** Any Working Interest Owner is prohibited from assigning any of its interest hereunder unless said interest is a partial undivided interest herein or is that Working Interest Owner's entire undivided interest under this Agreement. If at any time subsequent to the Effective Date, the Working Interest of any Working Interest Owner is divided among and owned by two (2) or more co-owners, Unit Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of Unit Expense, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this Agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the Unitized Substances produced from the Unit Area.

ARTICLE 25
UNLEASED INTERESTS

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

ARTICLE 26
JOINDER IN DUAL CAPACITY

26.1 **Joinder in Dual Capacity.** In the event that the parties hereto own both Working Interest and Royalty Interests, it shall not be necessary for such party to execute this Agreement in both capacities in order to commit both classes of interests. Execution hereby by any such party in one capacity shall also constitute execution in the other capacity.

IN WITNESS WHEREOF, this Agreement is approved on the dates of execution by the Working Interest Owners and the Unit Operator.

OPERATOR:

MERIT ENERGY COMPANY, LLC

By: _____
Name: Christopher S. Hagge
Title: Vice President

STATE OF TEXAS)
) **SS**
COUNTY OF DALLAS)

This instrument was acknowledged before me on this _____ day of _____, 2024, by Christopher S. Hagge, as Vice President of Merit Energy Company, LLC, on behalf of said company.

_____
Notary Public

NON-OPERATORS:

MERIT HUGOTON, L.P.

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

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

STATE OF TEXAS)
) **SS**
COUNTY OF DALLAS)

This instrument was acknowledged before me on this _____ day of _____, 2024, by Christopher S. Hagge, as Vice President of Merit Management Partners GP, LLC, the General Partner of Merit Hugoton, L.P., a Delaware limited partnership, on behalf of said company and partnership.

_____
Notary Public

EIGER RESOURCES, LLC

By: _____
Name: Mickey Friedrich
Title: President and CEO

STATE OF TEXAS)
) **SS**
COUNTY OF DALLAS)

This instrument was acknowledged before me on this _____ day of _____, 2024, by Mickey Friedrich as President and CEO of Eiger Resources, LLC, a Texas limited liability company, on behalf of said company.

_____
Notary Public

Exhibit "A-1"

Attached to and made part of that certain Unit Operating Agreement dated _____ ("Agreement") between Merit Energy Company, LLC, Operator, and the Non-Operators thereto. All terms and words in this Exhibit "A-1," and any of its supporting schedules, shall have the same meanings as set forth or otherwise described in the Agreement.

IDENTIFICATION OF LANDS SUBJECT TO THIS AGREEMENT

UNIT BOUNDARY MAP

FARMERS DITCH UNIT (FDU):

TRACT #1: (NW/4) Sec. 31-23S-33W

TRACT #2: (E/2) Sec. 31-23S-33W

Unit Size: 480 acres

FINNEY COUNTY, KANSAS

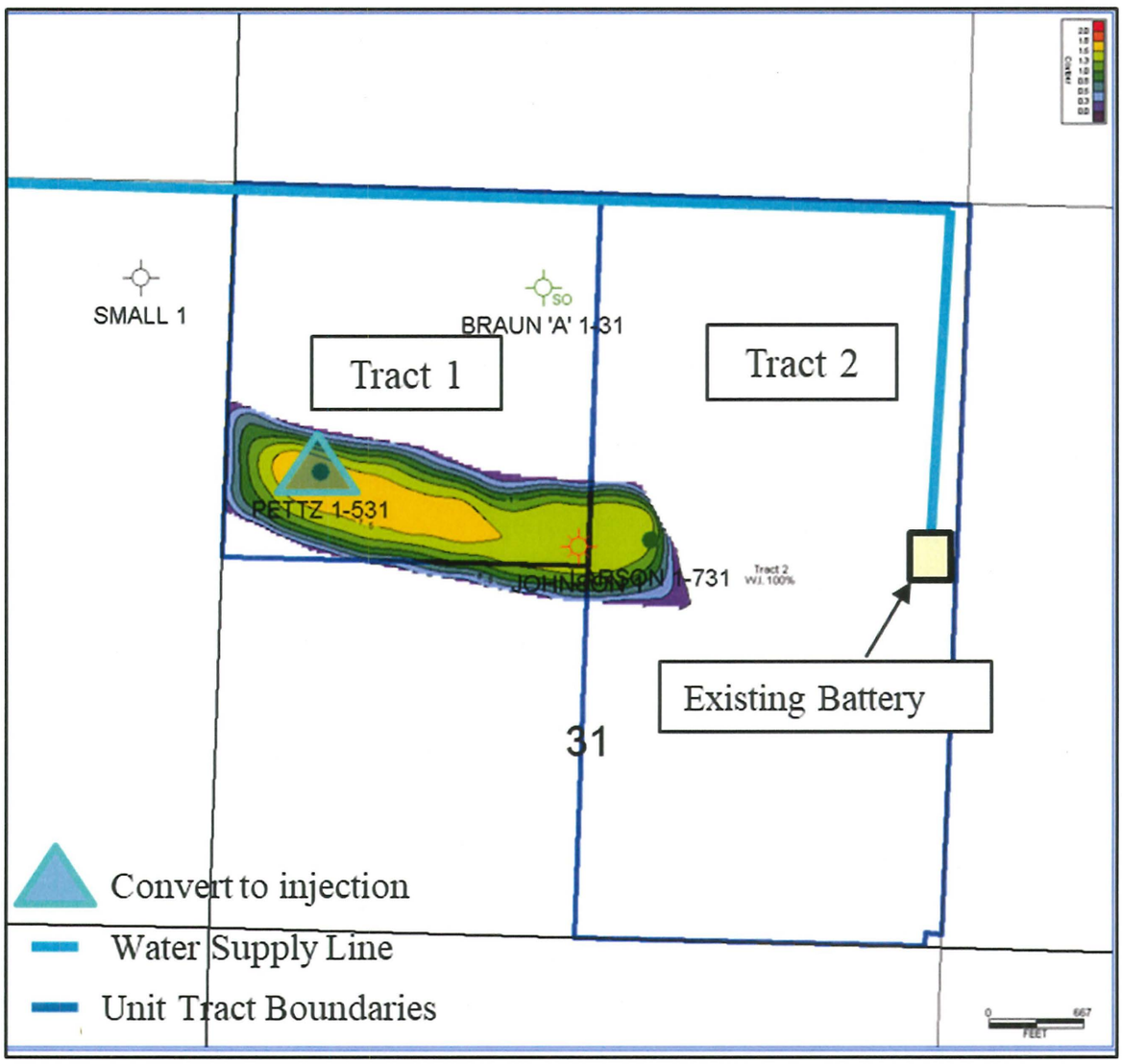


Exhibit "A-2"

Attached to and made part of that certain Unit Operating Agreement dated _____ ("Agreement") between Merit Energy Company, LLC, Operator, and the Non-Operators thereto. All terms and words in this Exhibit "A-2," and any of its supporting schedules, shall have the same meanings as set forth or otherwise described in the Agreement.

RESTRICTIONS TO DEPTHS, FORMATIONS AND SUBSTANCES

FARMERS DITCH UNIT (FDU):

Unitized Formations: means the common pool contained within Morrow and Chester formations ("Unitized Formations") underlying the Unit Area. The top of the Unitized Formations is defined as the top of the Morrow shale formation, found at a measured depth of 4,660 feet in the Larson 1-731 well (API 15-055-21744). The base of the Unitized Formations is defined as the top of the St. Genevieve Limestone formation, found at a measured depth of 4,754 feet in the same well. With it being intended that the covered depths include all stratigraphic equivalents between the Morrow Shale and the St. Genevieve Limestone formations.

Exhibit "A-3"

Attached to and made part of that certain Unit Operating Agreement dated _____ ("Agreement") between Merit Energy Company, LLC, Operator, and the Non-Operators thereto. All terms and words in this Exhibit "A-3," and any of its supporting schedules, shall have the same meanings as set forth or otherwise described in the Agreement.

PERCENTAGE INTERESTS OF PARTIES

FARMERS DITCH UNIT (FDU):

TRACT #:	LEGAL DESCRIPTION:	INTEREST TYPE:	OWNER/ENTITY NAME:	UNIT WI:	UNIT NRI:	ADDRESS:
1	(NW/4) Sec. 31-23S-33W	WORKING	MERIT HUGOTON, L.P.	43.0113%	37.6349%	13727 Noel Road, Suite 1200 Dallas, TX 75240
1	(NW/4) Sec. 31-23S-33W	WORKING	EIGER RESOURCES, LLC	4.7260%	4.1352%	2525 Knight Street, Suite 300 Dallas, TX 75219
1	(NW/4) Sec. 31-23S-33W	ROYALTY	SH OIL & GAS, LLC		2.9836%	1402 MEL'S DRIVE GARDEN CITY, KS 67846
1	(NW/4) Sec. 31-23S-33W	ROYALTY	BRENDA HARDER		0.7459%	c/o CHRISTOPHER PETTZ PO BOX 31 DEERFIELD, KS 67838
1	(NW/4) Sec. 31-23S-33W	ROYALTY	JEFFREY PETTZ		0.7459%	c/o CHRISTOPHER PETTZ PO BOX 31 DEERFIELD, KS 67838
1	(NW/4) Sec. 31-23S-33W	ROYALTY	RHONDA KRAFT		0.7459%	c/o CHRISTOPHER PETTZ PO BOX 31 DEERFIELD, KS 67838
1	(NW/4) Sec. 31-23S-33W	ROYALTY	CHRISTOPHER PETTZ		0.7459%	PO BOX 31 DEERFIELD, KS 67838
2	(E/2) Sec. 31-23S-33W	WORKING	MERIT HUGOTON, L.P.	47.0887%	41.2026%	13727 Noel Road, Suite 1200 Dallas, TX 75240
2	(E/2) Sec. 31-23S-33W	WORKING	EIGER RESOURCES, LLC	5.1740%	4.5273%	2525 Knight Street, Suite 300 Dallas, TX 75219
2	(E/2) Sec. 31-23S-33W	ROYALTY	THE EXEMPT TRUST SHARE OF ANDREW E. LARSON, JR., ET AL		3.5931%	3510 N LITTLE LOWE RD. GARDEN CITY, KS 67846
2	(E/2) Sec. 31-23S-33W	ROYALTY	KARIN M. HENKLE REVOCABLE TRUST DATED DECEMBER 18, 1986.		2.9398%	2319 BELMONT PLACE GARDEN CITY, KS 67846

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

Exhibit "A-4"

Attached to and made part of that certain Unit Operating Agreement dated _____ ("Agreement") between Merit Energy Company, LLC, Operator, and the Non-Operators thereto. All terms and words in this Exhibit "A-4," and any of its supporting schedules, shall have the same meanings as set forth or otherwise described in the Agreement.

OIL AND GAS LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THIS AGREEMENT

FARMERS DITCH UNIT (FDU):

TRACT 1:

Lessor:	A. J. Johnson and Mary S. Johnson, his wife
Lessee:	Joe E. Denham
Date:	April 13, 1943
Bk/Pg:	Bk. 12/ Pg. 152
Legal:	INSOFAR AS SAID LEASE COVERS: NW/4 of Section 31-23S-33W, Finney County, Kansas

TRACT 2:

Lessor:	J. H. Graham et al
Lessee:	Joe E. Denham
Date:	April 22, 1943
Bk/Pg:	Bk. 12/ Pg. 196
Legal:	INSOFAR AS SAID LEASE COVERS: E/2 of Section 31-23S-33W, Finney County, Kansas

Exhibit "A-5"

Attached to and made part of that certain Unit Operating Agreement dated _____("Agreement") between Merit Energy Company, LLC, Operator, and the Non-Operators thereto. All terms and words in this Exhibit "A-5," and any of its supporting schedules, shall have the same meanings as set forth or otherwise described in the Agreement.

ADDRESSES OF PARTIES FOR NOTICE PURPOSES

FARMERS DITCH UNIT (FDU):

Party:

Merit Energy Company, LLC (**Operator**)
13727 Noel Road, Suite 1200
Dallas, Texas 75240

Merit Hugoton, L.P. (**Non-Operator**)
13727 Noel Road, Suite 1200
Dallas, Texas 75240

Eiger Resources, LLC (**Non-Operator**)
2525 Knight Street, Suite 300
Dallas, Texas 75219

Exhibit "B"

Attached to and made part of that certain Operating Agreement dated _____ ("Agreement") between Merit Energy Company, LLC, Operator, and the Non-Operators thereto. All terms and words in this Exhibit "B," and any of its supporting schedules, shall have the same meanings as set forth or otherwise described in the Agreement.

FORM OF LEASE

PROD 88 (REV 11/03) **PAID UP OIL AND GAS LEASE**

PRINTED IN USA

THIS LEASE AGREEMENT is made as of the _____ day of _____ 20__ between _____ as "Lessor" (whether one or more), and **MERIT HUGOTON, L.P., 13727 Noel Road, Suite 1200, Dallas, TX 75240**, as "Lessee".

1. **Description.** Lessor in consideration of a cash bonus and other good and valuable consideration, in hand paid and the covenants herein contained, hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called leased premises (use Exhibit "A" for long description):

in the County of _____, State of _____, containing _____ gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described land, this lease and the term "leased premises" also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described land, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. **Term of Lease.** This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term of **One (1)** year from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are capable of being produced in paying quantities from the leased premises or from lands pooled or unitized therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. **Royalty Payment.** Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be one-eighth (1/8) of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, less a proportionate part of any ad valorem taxes and production, severance or other excise taxes and the costs incurred by Lessee in delivering, treating or otherwise marketing such oil or other liquid hydrocarbons, provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be one-eighth (1/8) of the market value of such gas or substances determined at the well, which value is less a proportionate part of any ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee in delivering, processing or otherwise marketing such gas or other substances. Royalties may be paid based on an index price derived from Inside FERC or other valid oil and gas industry publications, adjusted for transportation costs and related fees, and such index price shall constitute market value for the purposes of this clause. Lessee shall have the continuing right to sell such production to itself or an affiliate; and (c) If at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut in or production therefrom is not being sold by Lessee, then Lessee shall pay an aggregate shut-in royalty of one dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository designated below, on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

4. **Depository Agent.** All shut-in royalty payments under this lease shall be paid or tendered Directly to Lessor at Lessor's address herein, or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the U.S. Mails in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to Lessee a proper recordable instrument naming another institution as depository agent to receive payments.

5. **Operations.** If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

6. **Pooling.** Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well (other than a horizontal completion) shall not exceed 80 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for

an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 15,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 15,000 cubic feet or more per barrel, based on a 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

7. **Proportionate Reductions.** If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties and shut-in royalties payable hereunder for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises.

8. **Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository designated above. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons or to their credit in the depository, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to
pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each

9. **Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

10. **Ancillary Rights.** In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized therewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the leased premises or lands pooled or unitized therewith, the ancillary rights granted herein shall apply (a) to the entire leased premises described in Paragraph 1 above, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the leased premises or lands pooled therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the leased premises or other lands of Lessor used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises or such other lands during the term of this lease or within a reasonable time thereafter.

11. **Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupted.

12. **Breach or Default.** No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or cancelled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so. If this lease is cancelled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations, (but in no event less than forty acres), such acreage to be designated by lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require: and (2) any part of said land included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary to operations on the acreage so retained.

13. **Warranty of Title.** Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If Lessee exercises such option, Lessee shall he subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

14. **In the event the term of this lease has not been extended by production or some other provision contained in the lease, Lessee is hereby given the exclusive right and option to extend the primary term of this lease as to all or any portion of the land covered hereby for an additional two (2) years from the date of expiration of the original primary term. This option may be exercised by Lessee at any time during the last year of the original primary term hereof by paying or tendering to Lessor, or its successor, the sum of Fifty and No/100 Dollars ($50.00) per net mineral acre covered by this lease. Should this option be exercised as herein provided, it shall be considered for all purposes as though this lease originally provided for a paid-up primary term of five (5) years. Payment shall be considered made and option exercised by mailing payment to last known address of Lessor or its assigns.**

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSOR (WHETHER ONE OR MORE)

_____ _____

ACKNOWLEDGEMENTS

STATE OF _____

INDIVIDUAL

COUNTY OF _____ (For use in all states)

On this _____ day of _____, **20**__, before me, the undersigned Notary Public in and for said county and state, personally appeared_____, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged that the same was executed and delivered as their free and voluntary act for the purposes therein set forth. In witness whereof I hereunto set my hand and official seal an of the date hereinabove stated.

_____ _____

My Commission Expires Notary Public

Exhibit "C"
ACCOUNTING PROCEDURE
JOINT OPERATIONS

Attached to and made part of that certain Operating Agreement, Farmers Ditch Unit, between Merit Energy Company, LLC, as Operator, and the Non-Operators thereto. All terms and words in this Exhibit "C" shall have the same meaning as prescribed in the operating agreement unless otherwise defined herein.

I. GENERAL PROVISIONS

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

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

1. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. STATEMENTS AND BILLINGS

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

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

3. ADVANCES AND PAYMENTS BY THE PARTIES

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

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

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

4. ADJUSTMENTS

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

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

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

5. EXPENDITURE AUDITS

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

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

those Non-Operators approving such audit.

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

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

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

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

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

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

C. AFFILIATES

For the purpose of administering any / voting procedure, if Parties to this Agreement are Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating Interest of such Affiliates.

II. DIRECT CHARGES

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

1. RENTALS AND ROYALTIES

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

2. LABOR

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

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

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

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

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

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

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

Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by a majority in interest of the Parties.

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

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

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

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

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

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

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

3. MATERIAL

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

4. TRANSPORTATION

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

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

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

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

5. SERVICES

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

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

6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

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

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

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

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

7. AFFILIATES

A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed to such individual project do not exceed $ 75,000 If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval of a majority in interest of / the Parties.

B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators, charges for such Affiliate's goods and services shall require approval of a majority in interest of / the Parties, if the charges exceed $ 75,000 in a given calendar year.

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

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

8. DAMAGES AND LOSSES TO JOINT PROPERTY

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

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

9. LEGAL EXPENSE

Recording fees and costs of handling, settling, or otherwise discharging litigation, claims, and liens Including reasonable attorneys' fees and costs / incurred in or resulting from operations under the Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the Agreement.

Costs for procuring abstracts, fees paid to Landmen, whether third-party contracted or employed by Operator, / outside attorneys for title examinations (including preliminary, supplemental, shut-in royalty opinions, division order title opinions), and curative work shall be chargeable to the extent permitted as a direct charge in the Agreement.

10. TAXES AND PERMITS

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

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

Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other tax matters.

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

11. INSURANCE

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

12. COMMUNICATIONS

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

13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

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

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

14. ABANDONMENT AND RECLAMATION

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

15. OTHER EXPENDITURES

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

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

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

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

- human resources
- management
- supervision not directly charged under Section II.2 (*Labor*)
- legal services not directly chargeable under Section II.9 (*Legal Expense*)
- taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)

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

1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

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

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

A. TECHNICAL SERVICES

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

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

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

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

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

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

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

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

B. OVERHEAD—FIXED RATE BASIS

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

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

Producing Well Rate per month $ 1,000

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

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

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

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

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

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

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

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

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

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

2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. AMENDMENT OF OVERHEAD RATES

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

IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

1. DIRECT PURCHASES

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

2. TRANSFERS

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

A. PRICING

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

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

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

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

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

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

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

B. FREIGHT

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

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

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

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

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

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

C. TAXES

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

D. CONDITION

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

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

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

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

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

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

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

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

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

E. OTHER PRICING PROVISIONS

(1) Preparation Costs

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

(2) Loading and Unloading Costs

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

3. DISPOSITION OF SURPLUS

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

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

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

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

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

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

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

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

4. SPECIAL PRICING PROVISIONS

A. PREMIUM PRICING

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

B. SHOP-MADE ITEMS

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

C. MILL REJECTS

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

V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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

1. DIRECTED INVENTORIES

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

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

A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel performing the inventory or a rate agreed to by a majority in interest of the Parties. The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report preparation.

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

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

2. NON-DIRECTED INVENTORIES

A. OPERATOR INVENTORIES

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

B. NON-OPERATOR INVENTORIES

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

C. SPECIAL INVENTORIES

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

Exhibit "D"

Attached to and made part of that certain Operating Agreement dated _____ ("Agreement") between Merit Energy Company, LLC, Operator, and the Non-Operators thereto. All terms and words in this Exhibit "D," and any of its supporting schedules, shall have the same meanings as set forth or otherwise described in the Agreement.

INSURANCE

Operator shall carry the following insurance coverage:

a) Worker's Compensation Insurance complying with the statutes in states in which operations are to be performed and Employer's Liability Insurance with limits of not less than $500,000.00.

b) Commercial General Liability Insurance of $1,000,000.00 per occurrence.

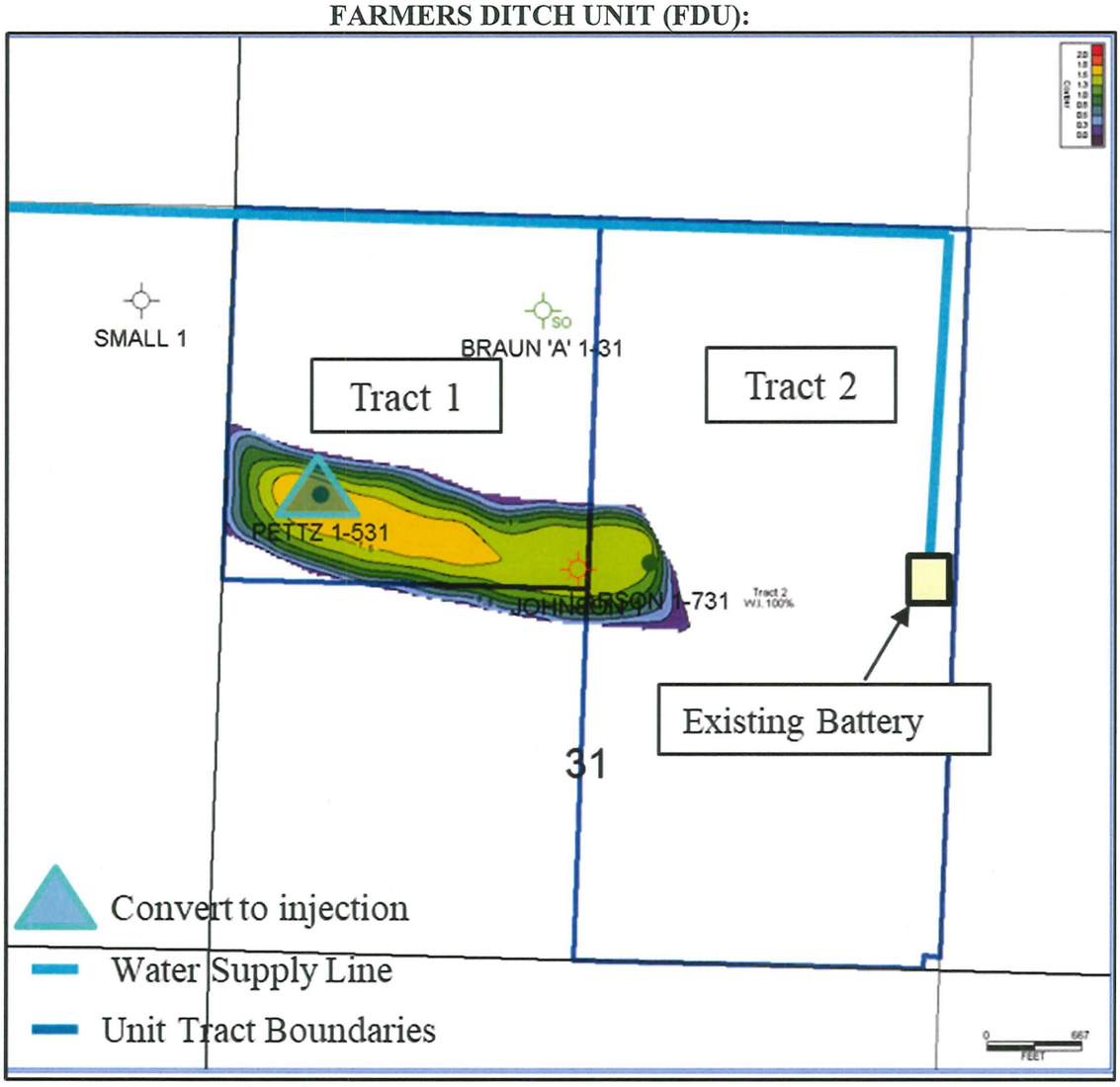
c) Automobile Liability Insurance of $500,000.00 per occurrence.

EXHIBIT "E"

Attached to and made part of that certain Unit Operating Agreement dated _____ ("Agreement") between Merit Energy Company, LLC, Operator, and the Non-Operators thereto. All terms and words in this Exhibit "E," and any of its supporting schedules, shall have the same meanings as set forth or otherwise described in the Agreement.

DEVELOPMENT PLAN

FARMERS DITCH UNIT (FDU):



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

The development plan is a two well line drive (channel) flood designed to maximize displaced oil within the Unitized Formation as currently mapped above. This field was discovered in 2001 with the completion of Larson 1-731 in the Unitized Formation, and has produced a cumulative 127.1 thousand barrels of oil since then. The installation of a waterflood for the purpose of reservoir pressure maintenance will add an additional estimated 82 thousand barrels of recoverable oil reserves. This waterflood installation will require the following:

- Addition of a water handling and injection plant to the existing production facility.
- New construction of a 2-mile water transfer line from an existing SWD system to supply the flood with water to inject.
- Conversion of the temporarily abandoned Petz 1-531 to an injection well.

A central water handling facility will be used to manage and distribute water to the injection well. Other surface and subsurface facilities will be installed, operated and maintained as needed. This will be installed on the same location as the existing tank battery located in the East side of Tract #2 in Section 31, within the proposed unit.

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

EXHIBIT D

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

Merit Hugoton, L.P. 13727 Noel Road, Suite 1200 Dallas, Texas 75240 *via hand-delivery*	Scout Energy Management, LLC 13800 Montfort Drive Dallas, TX 75254
Mickey Friedrich, President & CEO Eiger Resources, LLC 2525 Knight Street, Suite 300 Dallas, Texas 75219	Sharon K. Braun SH Oil & Gas, LLC 1402 Mel's Drive Garden City, KS 67846
Brenda Harder 1505 Cottontail Ct. Garden City, KS 67846	Jeffrey Pettz 1902 W. 39th St., Apt. 4 Kearney, NE 68845
Rhonda Kraft 17216 Plattsburg Rd. Kearney, MO 64060	Christopher Pettz P. O. Box 31 Deerfield, KS 67838
Andrew E Larson Sr. Trust 3510 N. Little Lowe Rd. Garden City, KS 67846	Karin M. Henkle Revoc. Trust 2319 Belmont Place Garden City, KS 67846

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Merit Energy Company, LLC, for an Order Authorizing the Unitization and Unit Operation of the Farmers Ditch Unit to be located in Finney County, Kansas	)	Docket No. 24-CONS-3390-CUNI CONSERVATION DIVISION License No. 32446

NOTICE OF APPLICATION

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

You and each of you are hereby notified that Merit Energy Company, LLC ("Merit") has filed an Application with the Kansas Corporation Commission ("Commission") pursuant to K.S.A. 55-1301, et seq., seeking an order authorizing the unitization and unit operation of the Farmers Ditch Unit ("Unit"). The area of the proposed Unit, which will be operated by Merit, includes the E/2 and NW/4 of Section 31 Township 23 South, Range 33 West, Finney County, Kansas.

Merit proposes to unitize the oil and gas rights to a pool within the Morrow and Chester formations beneath the area of the Unit, which is described as the stratigraphic equivalent of the top of the Morrow shale found at a measured depth of 4,660' to the top of the St. Genevieve formation found at a measured depth of 4,754' as shown in the well logs for the Larson 1-731 well (API No. 15-055-21744), located approximately 2,435' FNL and 2,150' FEL in Section 31-T23S-R33W. Merit intends to conduct a secondary recovery waterflood operation within said pool in order to increase the recovery of oil reserves, and will allocate such production from the Unit across two tracts within the Unit on a fair, reasonable and equitable basis.

The Application is pending with the Commission. Any persons who object or protest to the granting of the Application shall be required to file their objections or protests in writing with the Commission within 15 days after the date of this publication. If a written protest is not timely filed, the Application may be determined administratively by the Commission and may thereby be granted without hearing or further notice to any interested party. All objections and protests shall clearly state the reasons why granting the Application will violate correlative rights, cause waste, or pollute water resources. Objections or protests shall be mailed to the Kansas Corporation Commission, Conservation Division, 266 N. Main St., Ste. 220, Wichita, KS 67202, with a copy to Merit's attorneys listed below. All parties in any way interested or concerned shall take notice of the foregoing and govern themselves accordingly.

Jonathan A. Schlatter, #24848
MORRIS LAING LAW FIRM
300 N. Mead, Suite 200
Wichita, KS 67202-2745
Office (316) 262-2671
Fax (316) 262-6226
Attorneys for Merit Energy Company, LLC

CERTIFICATE OF SERVICE

I, Jonathan A. Schlatter, hereby certify that on this 20th day of June, 2024, I caused the original of the foregoing Application with its attached Exhibits A, B, C, and D, and the Notice of Application to be electronically filed with the Conservation Division of the State Corporation Commission of the State of Kansas, and caused true and correct copies of the same to be deposited in the United States Mail, first class, postage prepaid, and properly addressed to the parties listed on Exhibit D to the Application.

Jonathan A. Schlatter