

U.S. ENERGY[®]
Development Corporation

U.S. ENERGY PRIVATE CAPITAL III LP

Limited Partnership - General Offering - Terms Confidential



www.usedc.com

Confidential Private Placement Memorandum | April 4, 2025

These securities are speculative and are subject to certain risks. You should purchase these securities only if you can afford a complete loss of your investment (see "Risk Factors" herein.) Neither the Securities and Exchange Commission ("SEC") nor any state securities commission has approved or disapproved of these securities or determined if this private placement memorandum is accurate or complete. Any representation to the contrary is a criminal offence. Equipment pictured is not owned by U.S. Energy Private Capital III LP⁶

Confidential Private Placement Memorandum

No.

U.S. ENERGY PRIVATE CAPITAL III LP

LIMITED PARTNERSHIP

NOTICE REGARDING USE OF THIS MEMORANDUM

*This Confidential Private Placement Memorandum (this “**Memorandum**”) is furnished solely to the identified recipient on a confidential private placement basis for your use only and you may not distribute it to others, and may share it only, on a confidential basis, with your legal, tax, and financial advisers for purposes of evaluating your investment decision. Acceptance of this Memorandum constitutes a binding agreement to maintain such confidentiality.*

You should rely only on the information contained in this Memorandum and the documents described in Section III (Additional Information). No one is authorized to provide you with information that is different. Also, you should not rely on the information contained in this Memorandum as legal, tax, investment or financial advice. You should consult with your personal counsel, accountant, or other adviser as to legal, tax, financial, and other related matters concerning your investment in the Partnership.

In making an investment decision, you and your purchaser representative, if any, must rely on your own examination of the Partnership and the terms of the Offering, including the merits and risks involved. In addition to providing this Memorandum to you, you and your purchaser representative, if any, may, subject to confidentiality obligations and the Managing General Partner’s discretion, inspect, to the extent that this additional information is possessed by the Managing General Partner or can be obtained by the Managing General Partner without unreasonable effort or expense, during normal business hours and on reasonable notice to the Managing General Partner at its offices all books of account, records, and other documents concerning:

- *the Managing General Partner;*
- *the Partnership;*
- *the Units; and*
- *the terms and conditions of the Offering.*

You and your purchaser representative, if any, also may ask questions and, subject to confidentiality obligations and the Managing General Partner’s discretion, receive answers from the Managing General Partner concerning these matters and any additional information deemed necessary by you and your purchaser representative, if any, to verify the accuracy and adequacy of the information contained in this Memorandum, to the extent that this additional information is possessed by the Managing General Partner or can be obtained by the Managing General Partner without unreasonable effort or expense.

This Memorandum is not an offer to sell these securities to any person in any state or jurisdiction where the offer and sale is not permitted. You will not be permitted to purchase Units and become an investor unless and until your Subscription Agreement has been accepted by the Managing General Partner, which reserves the unconditional and conclusive right to reject your Subscription, in whole or in part. All Subscription documents are included in the Subscription Agreement. You must:

- *be aware of, read, and understand the legend which is included in the Subscription Agreement;*
- *provide all documents and supplemental materials identified and/or requested in the Subscription Agreement; and*
- *complete and execute the execution page and purchaser questionnaire included in the Subscription Agreement.*

The Units are being offered on a private placement basis in reliance upon prospectus exemptions under the Securities Act of 1933 and applicable securities laws in the United States of America (“U.S.”) and each of its states and any other applicable jurisdictions. The sale, resale or transfer of the Units offered hereby will be subject to restrictions under applicable securities laws, which will vary depending upon the relevant jurisdiction and limitations set forth in the Partnership Agreement which is attached as Exhibit A. Neither the U.S. Securities and Exchange Commission (“SEC”) nor the U.S. Commodity Futures Trading Commission nor any other securities commission or similar authority in the U.S. or any other jurisdiction has approved, disapproved, or in any way passed upon the merits or adequacy of the Managing General Partner, the Partnership, or the Units offered in this Memorandum or reviewed, approved, or disapproved this Memorandum and any representation to the contrary is a criminal offense.

Except as otherwise noted herein, the Managing General Partner presents the information in this Memorandum as of the date hereof. No representation or warranty is made, nor should the delivery of this Memorandum imply, that the information in this Memorandum is accurate after the date on the cover page or after the date which such information references, if earlier. Neither the Managing General Partner nor any of its Affiliates has any obligation to update this Memorandum. Under no circumstance should the delivery of this Memorandum, irrespective of when it is made, create an implication that there has been no change in the affairs of the Partnership, the Managing General Partner or any of their Affiliates since such date. The Managing General Partner reserves the right to modify any of the terms of the Offering and the Units described herein. This Memorandum may be updated and amended by a supplement and where such supplement is prepared, this Memorandum will be read and construed with such supplement, as one Memorandum.

This Memorandum is provided for information purposes only and is not intended to be, and must not alone be taken as, the basis for an investment decision. Prospective investors should conduct their own investigation and analysis of an investment in the Partnership and make their own assessment of the private placement (including, without limitation, their consideration and review of the subject matter of the appendices hereto, and the documents referred to herein) independently and without reliance on the Partnership, the Managing General Partner, or their respective directors, employees, agents, and Affiliates. In addition, prospective investors are strongly urged to consult their own legal counsel and financial, accounting, regulatory, and tax advisers regarding the implications of investing in the Partnership. Nothing in this Memorandum shall be considered legal, financial, investment or tax advice.

Statements contained herein that are attributable to the Managing General Partner or any of its investment professionals are not made in any person's individual capacity, but rather on behalf of

the Managing General Partner, which manages and implements the investment Program of the Partnership.

This Memorandum contains forward-looking statements. All statements (other than statements of historical fact) that address activities, events, or developments that the Managing General Partner or any of its Affiliates believes, expects, or anticipates will or may occur in the future (including, without limitation, statements regarding any objectives and strategies of the Partnership) are forward-looking statements. Forward-looking statements can generally be identified by words such as “may,” “will,” “should,” “expect,” “anticipate,” “estimate,” “intend,” “continue,” “believe,” “objective,” “plan,” “predict,” “project,” the negatives or variations thereof, or comparable terminology. These forward-looking statements reflect the current expectations, assumptions, or beliefs of the Managing General Partner and its personnel based on information currently available to such persons. Forward-looking statements are subject to expectations, assumptions, risks, and uncertainties, such as risks relating to market events, regulatory changes, the operations of the Partnership, or otherwise that may cause the actual results of the Partnership to differ materially from those discussed in such forward-looking statements. Even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Partnership. Factors that could cause actual results or events to differ materially from current expectations include, among other things, volatility in financial markets, fluctuations in commodity prices, performance of Partnership Wells, fluctuations in currency exchange rates and interest rates, tax consequences, changes in applicable laws, and other risks associated with investing in securities. Any market analysis presented in this Memorandum represents the subjective views of the Managing General Partner. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Partnership disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results, or otherwise. The forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

Prior to purchasing any Unit(s), prospective investors should review the Subscription Agreement, the Partnership Agreement attached as Exhibit A, and related documentation, which together contain important forms of agreements and other documents relating to the Partnership and the Offering. The Partnership Agreement, certain of the documents contained in the Subscription Agreement, and related documentation are described in summary form herein; these descriptions do not purport to be complete, and each such summary description is subject to, and qualified in its entirety by reference to, the actual text of the Partnership Agreement, the Subscription Agreement, and the relevant document included or referenced in the Subscription Agreement, including any amendment thereto.

Notwithstanding anything to the contrary in this Memorandum, except as necessary to comply with U.S. securities laws, prospective investors (and employees, representatives, or other agents of prospective investors) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Offering and all materials of any kind (including opinions or other tax analyses) that are provided to prospective investors relating to such tax treatment and tax structure. For this purpose, a “tax structure” means any facts relevant to the U.S. federal income tax treatment of the Offering and does not include (i) the name of, or any other identifying information regarding, the Partnership, the Managing General Partner, their Affiliates or any

existing or future investor (or any Affiliate thereof) in the Partnership, or any investment or transaction entered into by the Partnership, (ii) any performance information relating to the Partnership or its investments, or the Managing General Partner, (iii) any performance or other information relating to previous funds or investments sponsored or managed by the Managing General Partner or (iv) any other facts or information not relevant to the tax structure or tax treatment of the Offering.

**YOU SHOULD READ THIS MEMORANDUM IN ITS ENTIRETY BEFORE
MAKING AN INVESTMENT DECISION.**

U.S. ENERGY DEVELOPMENT CORPORATION

April 4, 2025

GENERAL OFFERING TERMS

This Memorandum sets forth the terms applicable to an oil and natural gas, Alternative Energy Projects, and other energy-related assets limited partnership being offered by U.S. Energy Development Corporation (“**U.S. Energy**” or the “**Managing General Partner**”). Units in U.S. Energy Private Capital III LP (the “**Partnership**”) are being offered only to “Accredited Investors” as defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933. Investors may invest directly as limited partners in the Partnership (“**Limited Partners**”) or as members of a limited liability company, U.S. Energy Private Capital III LLC, (“**LLC Members**” and the “**LLC**”) which will be a Limited Partner.

<u>Offering</u>	<u>Minimum</u>	<u>Maximum*</u>	<u>Closing Date**</u>
U.S. Energy Private Capital III LP	\$500,000 (5 Units)	\$100,000,000 (1,000Units)	March 31, 2026

*Subject to increase, in the Managing General Partner’s sole discretion, up to no more than \$150,000,000/1,500 Units; not inclusive of Units that are purchased through the DRIP (as defined herein); provided, the maximum number of investors in the Partnership shall be 1,999.

**Subject to extension, in the Managing General Partner’s sole discretion to September 30, 2026.

The Partnership is a limited partnership managed by general partner U.S. Energy, and will be funded to participate in drilling, completing, and operating oil and natural gas wells and other energy assets related to oil and natural gas and potentially assets involving Alternative Energy Projects in areas expected to be economically viable. The LLC will also be managed by U.S. Energy. The Managing General Partner will receive a Management Fee equal to 2% of gross Subscription Proceeds per annum and a share of returns on investments equal to 25% after certain hurdle rates are met, among other compensation as further described in this Memorandum. The Partnership will continue in existence for 25 years unless terminated early pursuant to the terms of the Partnership Agreement.

Limited Partner interests and LLC Member interests are being offered at \$100,000 per Unit (partial Units may be accepted in the Managing General Partner’s discretion).

The Units will be offered on a “best-efforts” “minimum-maximum” basis. This means the Managing General Partner and its Affiliates must sell at least 5 Units in order for the Offering to close and is required to use only its best efforts to sell the remaining Units. Therefore, the Offering may close even though all Units offered have not been sold and the Managing General Partner and its Affiliates will not be liable for any unsold Units.

All Subscription Proceeds committed prior to the Initial Closing Date will ultimately be held in the Escrow Account until the Initial Closing Date. The Offering will close on the Closing Date specified, subject to an earlier closing if Subscriptions for the maximum number of Units are accepted prior to the Closing Date. If Subscriptions for the specified minimum Subscriptions

are not received by the Closing Date, and you submitted a Subscription for the Offering, your Subscription will be promptly returned to you from the Escrow Account, and without deduction for any fees.

The Units are speculative and are subject to certain risks. You will be required to bear the risks of your Subscription for an indefinite period of time. You should purchase the Units only if you can afford a complete loss of your investment. (See Section II (Risk Factors)). Neither the SEC nor any state securities commission has approved or disapproved of the Units or determined if this Memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

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EXHIBIT A Amended and Restated Agreement of Limited Partnership

Exhibit B Tax Opinion

Exhibit C LLC Operating Agreement

I. SUMMARY OF THE OFFERING

The following summary highlights certain information contained in other parts of this Memorandum. It does not purport to be and is not complete and is qualified in its entirety by the definitive documents referred to herein. The following summary may not contain all the information that you should consider before investing. You should read this Memorandum and the attached and incorporated exhibits, including the Partnership Agreement, carefully.

U.S. ENERGY PRIVATE CAPITAL III LP.

The Partnership will be a Delaware limited partnership. U.S. Energy Development Corporation, 601 E. Exchange Ave., Suite 100, Fort Worth, Texas 76164, (800) 636-7606, will manage the Partnership as Managing General Partner. In most cases, the Managing General Partner will act as the operator for the Partnership and will supervise the operation of assets acquired by the Partnership.

The Partnership will seek to invest in and develop projects in a range of asset classes including oil and gas, minerals, Alternative Energy Projects, and other energy-related assets as an operator or a non-operating participant. Project types may include, without limitation, infrastructure development, oil and gas Lease acquisition and/or drilling projects, alternative energy development, or other energy related project development. Infrastructure development projects may include, among others, oil and natural gas gathering and/or transportation pipelines and their related facilities, produced water gathering pipelines or recycling projects, and water supply well development projects. Oil and gas development projects may include the acquisition of new or existing Leases for the development of the oil and gas reserves, the acquisition of oil and gas mineral interests, or the acquisition of Working Interests as a non-operator in underfunded well proposals or drilled and uncompleted wells. Investment in Alternative Energy Projects may include solar, wind, hydrogen, geothermal, hydropower, biomass, biofuel, carbon capture, carbon capture utilization and storage, battery energy storage, mechanical energy storage, thermal energy storage, or other renewable energy projects or similar methods and related infrastructure, and may include funding or investment in the pre-development phase of Alternative Energy Projects, including permitting, land/Lease acquisition, engineering, and project planning for development or divestiture to a third party. The Partnership may also acquire companies, or interests in companies, involved in any of the foregoing.

- Even with the acquisition of producing wells and drilling of developmental wells (developmental well means a well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive), there is a risk that the wells may not produce sufficient volumes of oil and gas to return the investment made.
- Even with the acquisition of energy-related assets that service existing oil and gas wells, there is a risk that such wells will not produce sufficient volumes of oil and gas to generate sufficient fees to return the investment made.

The Partnership is a separate and distinct partnership and is a separate business entity from all other funds that the Managing General Partner sponsors. You will be a partner only in the partnership in which you invest.

Description of Units.

Participants, who must be Accredited Investors, may invest as Limited Partners or LLC Members. Participants are sometimes referred to as “Investors.”

Investors will have, subject to the terms of the Partnership Agreement and the Subscription Agreement, limited liability, meaning they will not be liable for amounts beyond their initial investment and their share of undistributed net profits.

II. RISK FACTORS

An investment in the Partnership involves a high degree of risk and is suitable only if you have substantial financial means and no need of liquidity in your investment. You should carefully consider the following factors and other information in this Memorandum before deciding to invest in the Partnership. These risks are not the only ones affecting the Partnership and you, directly or indirectly, and other factors not described in this Memorandum may affect the Partnership's business, financial condition, and results of operations. You should only invest if you can afford the total loss of your investment.

RISKS RELATED TO THE INVESTMENT IN OIL AND NATURAL GAS WELLS

No Guarantee of Return of Investment or Rate of Return on Investment because of Speculative Nature of Oil and Natural Gas Wells.

The Managing General Partner's prior activities have concentrated on oil and natural gas drilling, development, and production and it is accordingly reasonable to anticipate that a significant part of the Partnership's activities will be related to oil and gas. Oil and natural gas investment is an inherently speculative activity. Even with existing wells, the Managing General Partner cannot predict with any certainty:

- the amount of oil or natural gas recoverable from such well;
- the time it will take to recover any oil or natural gas; or
- the commodity price of oil or natural gas at the time it will be sold.

The Partnership may participate in the drilling and new oil and natural gas wells and may acquire existing oil and natural gas wells and other energy assets related to oil and natural gas wells and potentially assets involving Alternative Energy Projects. The purchase price for oil and natural gas wells will be determined, in large part, by the discounted projected net cash flows from such wells. For related energy assets, including oil and gas Leases, the purchase price will be determined, in large part, by the discounted projected net cash flow from operations based upon anticipated production from oil and natural gas wells or from projected potential production from future oil and natural gas wells. Projected future volumes are based on an analysis of geological data and historic production volumes. Accordingly, acquisitions may be made for the Partnership based upon assumptions as to future production, Operating Costs, and prices. There is no warranty or guarantee that such assumptions and projections will be accurate.

There is a risk that you will not recover all of your investment or, if you do recover your investment, that you will not receive a targeted rate of return on your investment, or that such rate of return will be competitive with other types of investment. You will be able to recover your investment only through the Partnership's distributions of the sales proceeds from the production of its oil and natural gas reserves from any productive wells or from fees generated from wells serviced by the Partnership's related assets, or from the sale of assets acquired by the Partnership. It is anticipated that the Partnership will not make distributions in excess of the target percentages referenced in this Memorandum and in the Partnership Agreement. Oil and natural gas reserves (the quantity of oil and natural gas in a well) generally deplete over time until the wells are no longer economical

to operate. Any such distributions to you may be considered a return of capital until you have received one hundred percent (100%) of your investment.

Risk that a Well Does Not Return the Amount Paid to Acquire, Drill and/or Complete It.

There is a risk that even if a well drilled or acquired by the Partnership is completed and produces oil and natural gas in commercial quantities (that is, revenues from the sale of the oil and/or gas produced from a well exceed the cost of operating such well) it may not produce enough oil and natural gas to pay for the costs of acquiring, drilling and/or completing the well, even if tax benefits are considered. Thus, even if all of the wells the Partnership participates in are capable of commercial production, there is a risk that your investment will not be returned on a cash-on-cash basis. The Partnership's profitability is determined, in large part, by the difference between the income received from the oil and gas that it produces plus tax benefits, acquisition costs, development costs, operational costs, Administrative Costs allowed under the applicable agreements, and financing costs. Therefore, lower prices for oil and gas may reduce the amount of oil and gas that the Partnership is able to produce economically or may reduce the economic viability of the production levels of specific wells or of projects planned or in development to the extent that production costs exceed anticipated revenue from such production. While the primary focus of the Partnership will not be limited to the drilling of oil and natural gas wells, it may be involved in the drilling of one or more wells. To the extent the Partnership will participate in drilling new oil and natural gas wells, it intends to focus on the drilling of developmental wells.

Risk of Nonproductive Wells Exists Even in Developmental Drilling.

Although drilling development wells reduces the risk of drilling nonproductive wells, there is a risk that the Partnership will participate in drilling a well which is nonproductive and must be plugged and abandoned. If the Partnership participates in drilling one or more wells that are nonproductive, there is a risk that the Partnership's other assets may not produce sufficient revenues to offset the loss of investment in the nonproductive wells.

Risk of Loss of Value of Undeveloped Leased Acreage from the Drilling of Nearby Nonproductive Wells.

The Partnership may acquire interests in oil and gas Leases affecting properties that are then undeveloped, which Leases may then be resold, including on a wellsite-by-wellsite basis. The Leases would be sold for cash, which would be distributed as income, and the Partnership may also retain an Overriding Royalty Interest entitling it to a percentage of future revenues from wells drilled on the leased property. If a nonproductive well were drilled on, or nearby, the leased property it could adversely impact the sales price of any portion of the leased property then owned by the Partnership, possibly below the price at which the Partnership acquired such Leases, and/or reduce the potential for additional drilling and Overriding Royalty Interest payments.

Risk Related to Delays and Costs.

To the extent the Partnership engages in drilling and operation of oil and natural gas wells, the Partnership's operations will involve engineering work, procurement activities, and site preparation work to be carried out at different locations. Furthermore, the Partnership (together with the External Operators), must carry out drilling operations, install, test, and commission installations prior to commencement of production. The complexity of drilling operations makes them sensitive

to circumstances which may affect the planned progress or sequence of the various activities, and this may result in curtailments, delays, cancellations, or cost increases. Any projected target dates for commencement of drilling or production may be delayed and significant cost overruns may be incurred due to delays, changes in any part of our development plans, technical or geologic difficulties, title problems, project mismanagement, equipment failure, equipment delivery and supply chain constraints, adverse weather conditions, natural disasters, pandemics, political, economic, taxation, legal, regulatory or social uncertainties, ESG factors (such as carbon dioxide or similar fees, constraints, and reputational considerations), or cyber security attacks which may materially adversely affect the Partnership's drilling operations, operating results, financial condition, or cash flow. The cost of drilling and completing wells is uncertain and there may be cost overruns in drilling and completing the wells since the wells will not be drilled and completed on a turnkey basis for a fixed price that would shift certain risks of cost overruns from the Partnership. All of the Intangible Drilling Costs and Tangible Costs of the Partnership Wells will be charged to the Partnership. Any of these risks can cause substantial losses, in some cases including personal injury or loss of life, damage to or destruction of property, pollution, environmental contamination, or loss of wells and regulatory penalties, and could curtail oil and natural gas production from a well or could require a well to be re-drilled or other remedial action to be taken.

Risk Related to Availability of Drilling Equipment and Other Required Equipment.

Oil and gas development activities are dependent on the availability of specialized equipment which, in periods of high productivity, are in high demand. From time to time the demand for limited equipment may be high or access restrictions will affect the availability and cost of such equipment, and from time to time may delay development activities. If any of these risks materialize, they may have a material adverse effect on the Partnership's business, results of operations, cash flow, or financial condition.

Risk Related to Work Stoppages and Other Labor Disputes.

Strikes, labor disruptions, and other types of conflicts with employees, consultants, or temporary hired personnel including those of the Partnership's independent partners, contractors, suppliers, and customers, or their unions may occur in relation to the Partnership's operations. Work stoppages or other labor disturbances, such as industrial action, with the Partnership's employees, consultants, and temporary hired personnel or those of the Partnership's partners, contractors, suppliers, and customers may occur in the future. In addition, the Partnership's employees, consultants, and temporary hired personnel, and those of the Partnership's partners, contractors, suppliers, and customers may become members of or represented by labor unions. If this occurs, the Partnership's or the External Operator's contractors, suppliers, and customers may not be able to negotiate acceptable employment agreements, collective bargaining agreements, or future restructuring agreements or may become subject to material cost increases or additional work rules imposed by such agreements.

Unexpected Shutdowns May Occur at One or More of the Wells.

To the extent the Partnership engages in drilling and operation of wells, the Partnership is sensitive to major and long-lasting shutdowns or technical issues affecting the Partnership Wells. The Partnership has insurance maintained by U.S. Energy in amounts the Managing General Partner

deems appropriate. The insurance program the Partnership has in place may be insufficient to offset the impact of any major incident of any of the wells. A significant shutdown or other serious technical issues at the producing Partnership Wells, or other issues relating to our oil and gas production causing a large reduction in production levels, may materially affect the Partnership's profitability and may reduce the targeted amount of distributions. This is a result of the increase in costs and reduction in income which normally arise from such delays and through claims for compensation from third parties. Delays may also result in cancellation of contracts, which may adversely affect the Partnership's business, results of operations, cash flow, or financial condition.

Risk Related to External Operators.

Where the Partnership is not the Operator of a well, although the Partnership may have consultation rights or the right to vote or withhold consent in relation to significant operational matters depending on the level of the Partnership's interest in such well and the contractual rights the Partnership has with respect to such well, the Partnership may have limited control over management of the assets and mismanagement by External Operators or disagreements with External Operators as to the most appropriate course of action, which may result in significant delays, losses, or increased costs to the Partnership. The terms of the relevant operating agreements may impose standards and requirements in relation to the External Operators' activities. When the Managing General Partner is not the actual Operator of a well, the Managing General Partner may not be able to supervise the External Operator closely. Decisions related to the well could be made by External Operators which are not in the best interests of the Partnership, including but not limited to (i) how the well is drilled, (ii) expenditures related to the well and (iii) the marketing of oil and natural gas from the well.

There is a risk that other Participants and third parties with interests in one or more Partnership Wells may not be able to fund or may elect not to participate in, or consent to, certain activities relating to those wells which require such Participant's or third party's consent, including but not limited to, decisions relating to drilling Programs, such as the number, identity, and sequencing of wells, appraisal and development decisions, decisions relating to production and also any decision to not drill at all (e.g., "drill or drop" decisions). In these circumstances, it may not be possible for such activities to be undertaken by the Partnership alone or in conjunction with other Participants or third parties at the desired time or sequence or at all. Inversely, decisions by the other Participants or third parties to engage in certain activities as noted in the preceding sentence, may also be contrary to the Partnership's desire not to engage in or commence such activities and may require the Partnership to incur its share of costs in relation thereto, which may become significant, or that the other Participants or third parties may enforce decisions which will delay or affect the profitability of a project. This is especially an inherent risk in wells under development where the Partnership only holds a minority interest.

Other Participants or third parties in the Partnership Wells may not pay their share of costs and default on their obligations to fund capital or other funding obligations in relation to the assets. In such circumstances, the Partnership may be required under the terms of the relevant operating agreement or otherwise to contribute all or part of such funding shortfall. In this event, the Partnership would receive the defaulting party's revenues from the well, if any, under penalty arrangements set forth in the operating agreement, which may, or may not, cover all of the additional costs paid by the Partnership. The Partnership may not have the resources to meet these obligations. Further, an External Operator may have financial difficulties and fail to pay for

materials or services on the wells it drills and operates, which would cause the Partnership to incur extra costs in discharging materialmen's and/or workmen's liens. Additionally, if the Managing General Partner is not the Operator of a Partnership Well, the Partnership's share of revenues from the sale of oil and natural gas produced by the well, if any, may first be temporarily held in a separate bank account by the External Operator to allow it to pay each Working Interest owner's (including the Partnership's) respective share of the Operating Costs of the wells and landowner royalties, Overriding Royalty Interests, and pay other burdens on the Leases covering the wells, before it distributes the Partnership's share of the net proceeds to the Partnership. This creates risk that the Partnership's production revenues from a well that is not operated by the Managing General Partner will be subject to claims by such External Operators' creditors before they are paid to the Partnership.

Any disagreement, absence of consent, breach of agreement, delay, opposition or inability to undertake activities or failure to provide funding of the kind identified above could materially adversely affect the Partnership business, results of operations, cash flow, or financial condition. Failure of other Participants or third parties to comply with obligations under the relevant well pursuant to which the Partnership operates, may lead to fines, penalties, restrictions, and revocation of permits, approvals, certifications, or licenses. Market conditions may also impair the liquidity situation of External Operators, contractors, and consequently their ability to meet their obligations to the Partnership. This may in turn impact both project timelines and cost. The incurrence of cost overruns or delays could have a material adverse effect on the Partnership's business, results of operations, cash flow, or financial condition.

Risk Related to Contractors and Subcontractors Conducting Drilling, Completion, and Operations Activities.

To the extent the Partnership engages in drilling and operation of wells, the Managing General Partner and each External Operator will utilize unaffiliated and affiliated contractors and subcontractors in the drilling, completion, and operations of the wells, and investors must rely on the Managing General Partner and the External Operators to evaluate such contractors and subcontractors, and to determine the terms under which the contractors and subcontractors will perform their services to the Partnership. In most cases, if not all, the Partnership may be required to accept the contractors and subcontractors that are selected by the External Operators and other co-owner(s) and the terms agreed by them. If any contractor or subcontractor is unable for any reason to perform such services, the interruption or discontinuance of such services may have a material adverse effect on the Managing General Partner's ability to provide services which are required for the Partnership to meet its investment objectives.

Risk Related to the Use of Hydraulic Fracturing in Completing Wells.

Hydraulic fracturing requires large amounts of water to complete the wells and/or results in water discharges that must be treated and disposed. The use of the water necessary for hydraulic fracturing may increase the Partnership's Operating Costs and cause delays and interruptions in drilling, completing, and operating wells, the extent of which cannot be predicted, which in turn could have an adverse effect on the Partnership's operations and financial performance. The Partnership's ability to transport, treat, and dispose of water will affect its production of natural gas from its wells, and the cost of water treatment and disposal may affect its profitability. Hydraulic fracturing has generated publicity regarding the possibility that hydraulic fracturing, or the use of

injection wells to dispose of water recovered from wells, could contaminate nearby water sources or cause earthquakes in the area, allegations which the oil and gas industry strongly denies. Also, some lawsuits have been filed against oil and gas operators by third parties seeking, among other remedies, cash damages for the alleged contamination of their water supplies and occurrence of earthquakes because of hydraulic fracturing or saltwater injection. Any successful claims against the Partnership may result in decreased financial performance and decreased distributions to you and the other investors.

Risk Related to Capacity Constraints and Cost Inflation in the Service Sector.

The Partnership is subject to risks relating to capacity constraints and cost inflation in the service sector. The Partnership is, similar to other energy companies, reliant upon services, goods, and equipment provided by contractors and other companies to carry out the Partnership's operations, including the availability of drilling rigs and equipment needed to drill and complete a well. There is a continuing risk of capacity constraints and cost inflation in the service sector. If the Partnership is unable to obtain the services, goods, or equipment necessary to carry out the Partnership's operations, or if any of the Partnership's contractors are unable or unwilling to carry out services or deliver goods or equipment to the Partnership as planned or otherwise become unable to comply with their obligations, become insolvent or otherwise unable to pay debts as they come due, the Partnership's operations or projects may suffer from delays and/or cost increases and a subsequent decrease in net production and/or revenue, which may materially adversely affect the Partnership's business, results of operations, cash flow, or financial condition. Even if the Partnership can obtain such equipment or services, in a highly competitive market there is no guarantee that the quality of such equipment or services will be of the customary standard, which could result in cost overruns or delays.

The Partnership may not have access to necessary infrastructure or capacity booking for the transportation of oil and gas. The Partnership is dependent on capacity (whether through pipelines, tankers, or otherwise) to transport and sell oil and gas production. If the Partnership experiences capacity constraints or loses any oil or natural gas purchaser in a given area, the Partnership may be unable to locate new capacity or a new purchaser in the area that will buy the Partnership's oil or natural gas altogether or on as favorable terms as the initial purchasers, which could affect the Partnership's business, results of operations, cash flow, or financial condition. There can be no assurance that the Partnership will be able to get access to necessary infrastructure at an economically justifiable cost or access necessary infrastructure at all. If access to third-party infrastructure and necessary capacity bookings are unavailable or unavailable at an economically justifiable cost, the Partnership's income relating to the sale of oil and gas may be reduced, which may materially adversely affect our business, results of operations, cash flow, or financial condition.

Risk of Reduced Partnership Distributions Because of a Decrease in the Price of Oil or Natural Gas.

The Partnership's business depends significantly on the level of oil and gas prices, which have fluctuated greatly in recent years, and volatility and decreases in oil and gas prices could materially and adversely affect the Partnership's results of operations, cash flow, or financial condition.

There is no assurance of the price at which the Partnership's oil and natural gas will be sold. If oil or natural gas prices decrease, then the amount of your portion of the Partnership's expected revenues will decrease accordingly. The price will depend on supply and demand factors largely beyond the control of the Partnership. There have been significant increases and decreases in the price of oil and natural gas since 1999, and oil and natural gas prices remain volatile. As an example, the United States released material reserves over a period of several months from the U.S. Strategic Petroleum Reserves in an effort to counteract the economic impact of global conflicts including, but not limited to, the Russian military action against Ukraine, Israel's declaration of war on Hamas, a U.S. designated Foreign Terrorist Organization, and current armed conflict in Israel against Hamas, and military operations between Israel, Iran, Iran's proxies and other terrorist and militant groups in the region, political instability in Venezuela or the United States or Yemeni rebel assaults on ships crossing the Red Sea, where a majority of the world's seaborne crude oil flows through, the impacts of which could lead to further volatility for crude oil prices. It is also a risk that increased focus of governments, regulators, and consumers on the impact of climate change and reducing carbon emissions could reduce demand for oil and suppress oil prices. There can be no assurances as to the level of oil prices that will be achievable in the future.

There is a further risk that the price of oil or natural gas may decrease during the first years of production when wells achieve their greatest level of production. To the extent the Partnership engages in drilling and operation of wells, it would have an adverse effect on Partnership distributions to you. While the amount of your distributions can be expected to both increase and decrease during the term of the Partnership, ultimately over time, your return level will likely decrease, even if there are rising oil or natural gas prices, because of declining production volumes from the Partnership Wells over time.

In addition, the Partnership may face property impairments if prices fall significantly. No assurance can be given that oil and natural gas prices and/or other energy and commodity prices will remain at levels which will enable the Partnership to do business profitably or at levels that make it economically viable to produce from certain wells and any material decline in such prices could result in a reduction of our net production volumes and revenue and a decrease in our reserves and in the valuation of our exploration, appraisal, development, and production properties.

The conflict in Ukraine has also impacted the global gas market. The reliance of the European Union ("EU") and (indirectly) the United Kingdom ("UK") on Russian gas supplies has increased over the last decade. Natural gas consumption in the EU and UK remained broadly flat in aggregate over this period, but production fell by a third and the gap has been filled by increased imports. Consequently, the share of Russian gas supplies increased from twenty-five percent (25%) of the region's total gas demand in 2009 to thirty-two percent (32%) in 2021. Since the conflict in Ukraine, Russia's supply of gas imports to the EU dropped to eleven percent (11%) in 2024. Meanwhile, the importance of Ukraine as a transit country has lessened due to the build-up of additional transit corridors bringing Russian piped gas to the EU and UK. Transit flows via Ukraine accounted for over twenty-five percent (25%) of Russia's pipeline deliveries to the EU and UK in 2021, significantly down from more than sixty percent (60%) in 2009. Nevertheless, Ukraine remains an important conduit for Russian gas to Europe (transiting about eight percent (8.0%) of the EU and UK combined gas demand) and relies heavily on imported gas for its own domestic use. European gas prices surged by fifty percent (50%) on February 24, 2022, as compared to the prior day to \$44/MMBtu, following the invasion of Ukraine by Russia. The strong increase in European gas prices supported Asian LNG spot prices which soared by thirty percent (30%) to

\$37/MMbtu. In the first few months of 2024, Russian gas imports increased to eighteen percent (18%) of EU imports. This was driven by Russian LNG, of which more than twenty percent (20%) is being re-exported to other parts of the world.

Natural gas prices are expected to remain extremely volatile in the current context of market uncertainty and the disruption of the importation of Russian gas supplies to Europe and in response to Israel's declaration of war on Hamas, a U.S. designated Foreign Terrorist Organization, current armed conflict in Israel and the Gaza Strip, military operations between Israel, Iran and Iran's proxies, political instability in Venezuela and the United States and Yemeni rebel assaults on ships crossing the Red Sea.

Prices for oil and gas have historically fluctuated for a variety of reasons, including, but not limited to (i) changes in global and regional supply and demand, and expectations regarding future supply and demand for oil and gas, even relatively minor changes, (ii) geopolitical uncertainty, (iii) availability of pipelines, storage capacity at the terminal, tankers and other transportation and processing facilities, (iv) proximity to, and the capacity and cost of, transportation, (v) petroleum refining capacity, (vi) price, availability and government subsidies of alternative fuels, (vii) price and availability of new technologies, (viii) the ability and willingness of the members of the Organization of Petroleum Exporting Countries ("OPEC") and other oil-producing nations to set and maintain specified levels of production and prices, (ix) political, economic, and military developments in producing regions, particularly the Middle East, Russia, Africa, and Central and South America, (x) domestic and foreign governmental regulations and actions, including import and export restrictions, taxes, repatriations and nationalizations, (xi) global and regional economic conditions, (xii) trading activities by market participants and others either seeking to secure access to oil and gas or to hedge against commercial risks, or as part of investment portfolio activity, (xiii) weather conditions and natural disasters, (xiv) changes in demand for substitute goods, including renewable energy sources, and (xv) terrorism or the threat of terrorism, cyber security attacks, war or threat of war, which may affect supply, transportation, or demand for oil, natural gas, and the liquids, if any, produced with the natural gas (collectively, "Hydrocarbons") and refined petroleum products.

Risk Regarding the Partnership's Oil and Natural Gas Markets which Could Reduce Partnership Distributions.

In addition to the risk of decreased oil or natural gas prices described above, there are risks associated with marketing Hydrocarbons which could result in reduced distributions from the Partnership to you and the other Investors. The Managing General Partner anticipates that most, if not all, of the Partnership's gas production will be marketed on the Partnership's behalf by independent natural gas marketers for resale to end-users, and on the spot market. The Managing General Partner anticipates that the natural gas liquids produced from wells the Partnership participates in will either be sold to third parties capable of processing the same, for resale to end-users or processed and sold to end-users or distributors, and that oil produced from the wells the Partnership participates in will be sold to refineries or similar purchasers. Set forth below are certain risks associated with marketing that may apply to the oil, natural gas, and/or natural gas liquids produced from the Partnership Wells.

- There is a risk that competition from other marketers will make it more difficult to market the Partnership's Hydrocarbons.

- Even if the Partnership were to sell the Partnership's Hydrocarbons under a contract with an end-user instead of on the spot market, there can be no assurance that the terms of the contract will be favorable over the life of the applicable wells. Most contracts provide that prices may be adjusted upward or downward in accordance with the spot market price and market conditions. Thus, there is no assurance of a specific price for the term of the agreement and there is a risk that the price for the Partnership's Hydrocarbons will be decreased because of market conditions. Furthermore, even if the contract did not provide for price adjustments, in the past, low prices or other difficulties in marketing have resulted in some purchasers renegotiating their then existing agreements to reduce the price and the volume to be purchased.
- If Partnership Hydrocarbons are sold to an end-user there is a risk that the Partnership may not be paid (in whole or in part) by the end-user or may experience delays in receiving payment for Hydrocarbons that have already been delivered.
- Partnership revenues may be less the further the oil, natural gas, or natural gas liquids are transported because of increased transportation costs.
- Distribution of production revenues paid to the Managing General Partner may be delayed or adversely impacted if there are third parties who had claims against the Managing General Partner.
- Production from one or more wells may be reduced or shut-in due to seasonal marketing demands since the demand for natural gas is usually greater in the winter months because of residential heating requirements than the summer months. There is also a risk that from time to time the Managing General Partner will reduce Hydrocarbon production awaiting a better price.
- Production from one or more wells may be restricted due to lack of capacity in the pipelines to which the wells are connected. Capacity restrictions have previously been experienced by certain Managing General Partner operated wells, particularly with pipelines that are closest to end-users, which typically have the lowest transportation costs.
- The quantities of natural gas to be delivered by the Partnership may also be affected by factors beyond its control such as:
 - the inability of the wells to deliver natural gas at pipeline quality and pressure;
 - premature exhaustion of reserves;
 - changes in governmental regulations affecting the production; and
 - sufficient infrastructure, including pipelines, which may not exist in areas where the Partnership acquires interests in wells that primarily produce oil,

in which case gas production from such wells may be flared and not marketed.

- Production from wells drilled in certain areas may be delayed until construction of the necessary pipelines and production facilities is completed; and
- Production from wells that the Partnership holds a “non-operated interest” in may be marketed on the Partnership’s behalf by the External Operator. The Partnership may not have control over such marketing, or the terms at which the oil or gas is marketed on.

Risk Regarding the Highly Competitive Market in which the Partnership Operates.

The energy industry is highly competitive, including in the Partnership’s areas of operation. Key areas of competition include (i) engagement of third-party service providers whose capacity to provide key services may be limited, (ii) employment of qualified and experienced skilled management and energy professionals, (iii) purchasing, hiring, leasing, or other procurement of equipment that may be scarce, (iv) acquiring leasehold acreage, and (v) pipeline take-away capacity.

Competition in our markets is intense and depends, among other things, on the number of competitors in the market, their financial power, their degree of geological, geophysical, petrophysical, engineering, and management expertise, their degree of vertical integration and pricing policies, their ability to develop properties on time and on budget, and their ability to select, acquire, and develop reserves. Many of the Partnership’s competitors may have greater technical, physical, or financial resources.

In addition, the Partnership competes with major energy companies and other companies within industries supplying energy and fuel in the marketing and sale of oil and gas to transporters, distributors, and end users, including industrial, commercial, and individual consumers. The Partnership also competes with other energy companies in attempting to secure drilling rigs, casing, frac sand, and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time; in addition, equipment, and other materials necessary to construct production and transmission facilities may be in short supply from time to time as well. Finally, companies and private equity firms not previously investing in energy may choose to acquire energy assets to establish a firm supply or simply as an investment. Any such companies will also constitute competition for the Partnership.

The effects of operating in a competitive industry may include higher than anticipated prices for the acquisition of assets, the hiring by competitors of key management or other personnel, and restrictions on the availability of equipment or services. If the Partnership is unsuccessful in competing against other companies, our business, prospects, financial condition, or results of operations could be materially adversely affected.

Risk Regarding Technological Developments in the Industry.

The energy industry is characterized by rapid and significant technological advancements and the introduction of new products and services using new technologies. The Partnership may be placed at a competitive disadvantage or may be forced by competitive pressures to implement those new

technologies at substantial costs. Other energy companies may have greater financial, technical, or personnel resources that allow them to enjoy technological advantages, which may in the future allow them to implement new technologies before we can. The Partnership may not be able to respond to these competitive pressures or implement new technologies on a timely basis or at an acceptable cost. If one or more of the technologies the Partnership uses now or in the future were to become obsolete, our business, prospects, financial condition, or results of operations could be materially adversely affected. In addition, any new technology that the Partnership implements may have unanticipated or unforeseen adverse consequences, either to our business or to the industry as a whole.

Risk of a Cyber Incident or a Terrorist Attack.

The Partnership and the Managing General Partner have become increasingly dependent upon digital technologies, including information systems, infrastructure, and cloud applications and services to operate the Partnership and their businesses, process and record financial and operating data, communicate with business partners, analyze well information, estimate quantities of oil and gas reserves, and engage in other activities related to their businesses.

Strategic targets, such as energy-related assets, may be at greater risk of future cyber or terrorist attacks than other targets in the United States. Cyber attackers often attempt to gain unauthorized access to digital systems for purposes of misappropriating confidential and proprietary information, intellectual property, or financial assets, corrupting data or causing operational disruptions as well as preventing users from accessing systems or information for the purpose of demanding payment in order for users to regain access. Deliberate attacks on, or security breaches in the Managing General Partner's and/or Partnership's systems and infrastructure, or the systems or infrastructure of third parties or the cloud, could lead to:

- corruption or loss of proprietary data and potentially sensitive data of the Managing General Partner, the Partnership and/or any Participant;
- delays in production or delivery;
- challenges in maintaining the books and records of the Managing General Partner and/or the Partnership; and
- other operational disruptions and third-party liability.

Risk Regarding Participation with Third Parties in Drilling Wells; External Operators.

The Partnership is expected to acquire and own minority interests in certain wells. There are several steps that must be completed before well drilling may commence, including, but not limited to, obtaining the necessary permit(s) from the appropriate regulatory agencies. If an External Operator makes interests available in a well that has already completed these steps, such External Operator's operated well would offer the potential of being spudded and/or drilled, completed, and equipped within the timeframe necessary to obtain the maximum current year tax deductions. That is an example of a situation where it may be advantageous for the Partnership to participate in a well with unaffiliated third parties. Another example, which is expected to occur for the Partnership, is when an External Operator controls a desirable well location that it will allow the Partnership to participate in such well provided that the External Operator is the Operator of the well. The

Managing General Partner anticipates that a significant portion, and potentially a majority, of the wells that the Partnership acquires an interest in will be operated by External Operators, and in such instances, the Partnership may not own a majority interest in such wells.

Additional financial risks exist when the cost of drilling, equipping, completing, and operating wells is shared by more than one person. If the Partnership pays its share of the costs but another interest owner does not, then the Partnership may have to pay the costs of the defaulting party which defaulting party would then lose its interest in the well.

The Managing General Partner may serve as the general drilling contractor and Operator of some of the Partnership Wells. It is anticipated that a significant portion, and potentially a majority, of the wells in which the Partnership acquires interests may be operated by External Operators and, in such instances, the Partnership may not control the operations in such wells. Disputes or failure of agreement or alignment with External Operators, including in relation to operations, budgets, development plans or audits could have an adverse effect on the Partnership and its business and operations. These arrangements can also decrease our ability to manage risks and costs, particularly where we are not the Operator. We could have limited information on, influence over and control of the behavior and performance of these operations. In addition, misconduct, fraud, bankruptcy, noncompliance with applicable laws and regulations or improper activities by or on behalf of one or more of the External Operators could have a significant negative impact on our business and reputation.

The failure of External Operators to meet their commitments and share of costs and liabilities can result in increased costs to the Partnership thereby adversely impacting the Partnership's financial condition and operations. Additionally, there is a risk that the External Operators may at any time have economic, business or legal interests or goals that are inconsistent with those of the Partnership. If this occurs, the Partnership's business, financial condition and operations may be adversely impacted, and the Partnership may lose its investment in such partnerships. Disagreements and divergent interests with External Operators could lead to disputes, which may be disruptive to the Partnership, as well as being expensive, time consuming and may lead to adverse results. The Partnership's dependence on External Operators and other third parties and its limited ability to influence operations and certain associated costs of properties operated by others could prevent the realization of anticipated results in drilling or acquisition activities.

Russia and Ukraine Conflict.

The ongoing military action between Russia and Ukraine could adversely affect our business, financial condition or results of operations. On February 24, 2022, Russian military forces launched a military action in Ukraine, and sustained conflict and disruption in the region is likely. As of the date of this Memorandum, the conflict between Russia and Ukraine is still ongoing. Although the length, impact, and outcome of the ongoing military conflict in Ukraine is highly unpredictable, this conflict could lead to significant market and other disruptions, including significant volatility in commodity prices and supply of energy resources, instability in financial markets, supply chain interruptions, political and social instability changes in consumer or purchaser preferences as well as increase in cyberattacks and espionage. The Partnership's business, prospects, financial condition, and results of operations depend substantially upon oil prices.

Russia's recognition of two separatist republics in the Donetsk and Luhansk regions of Ukraine and subsequent military action against Ukraine have led to broad expansion of sanctions programs by the United States and other countries against Russia, Belarus, the Crimea Region of Ukraine, the so-called Donetsk People's Republic, and the so-called Luhansk People's Republic, including, among others, blocking sanctions against Russian and Belarusian individuals and entities, expansion of sectoral sanctions and export and trade restrictions, limitations on new investments and access to capital markets in Russia, and bans on various Russian imports into the United States.

The situation is rapidly evolving as a result of the conflict in Ukraine, and the United States and other countries may implement additional sanctions, export controls or other measures against Russia, Belarus, the Crimea Region of Ukraine, the so-called Donetsk People's Republic, and the so-called Luhansk People's Republic or other countries, regions, officials, individuals, entities, or industries in connection with the conflict.

Such sanctions and other measures, as well as the existing and potential further responses from Russia or other countries to such sanctions, tensions, and military actions, could adversely affect the global economy and financial markets and could adversely affect the Partnership's business, financial condition, or results of operations.

The Managing General Partner is monitoring the situation in Ukraine and assessing its impact on the Partnership's business, including its impact on oil and gas prices. The Managing General Partner has no way to predict the progress or outcome of the conflict in Ukraine or its impacts in Ukraine, Russia, or Belarus as the conflict, and any resulting government actions, are rapidly developing and beyond the Partnership's control. The extent and duration of the military action, sanctions, and resulting market disruptions could be significant and could potentially have substantial impact on the global economy and the Partnership's business for an unknown period of time. Any of the abovementioned factors could affect the Partnership's business, financial condition, or results of operations. Any such disruptions may also magnify the impact of other risks described in this Memorandum.

War in the Middle East.

On October 7, 2023, Hamas operatives breached Israel's southern border from Gaza and conducted a deadly attack on Israeli civilians as well as military targets in Israel. Thereafter, Hamas launched extensive rocket attacks on the Israeli population and industrial centers in Israel. Shortly following these attacks, Israel's security cabinet declared war against Hamas and has since engaged in a campaign in Gaza to eliminate Hamas. Other Iranian backed groups, including Hezbollah and the Houthis, among others, have likewise declared war and launched attacks against Israel. The intensity and duration of Israel's current war against these terror and armed militia organizations is difficult to predict, as are such war's economic implications on the rest of the Middle East. The evolution of the war and related events in the Middle East is unpredictable and may be far reaching, severe and long lasting (for instance, on December 8, 2024, the Assad regime in Syria collapsed during a major offensive by opposition forces; such attack was launched as a result of the defeat of the Assad regime's ally Hezbollah by the Israeli forces in Lebanon). The immediate or longer-term effects of this war (and the associated risk of a military expansion to additional countries in the region) on the global economy and regional markets are not foreseeable. This may result in disruptions in the broader global economy, which may impact oil and gas prices and result in a prolonged economic slowdown or recession in the U.S. or other markets, which could impact our business and operations.

Risk of Loss or Delay Due to Natural Disasters, Climate Change, and Other Events Beyond the Control of the Partnership.

There is a risk that the Partnership's activities and assets could be adversely impacted by a natural disaster, such as an earthquake, flood, drought, landslide, hurricane, windstorm, freeze, extreme hot or cold conditions, or wildfire. While such events are uncommon, their occurrence could result in, among other things, (i) delays in the completion of Alternative Energy Projects, (ii) interruptions in production from the Partnership Wells or other energy assets, potentially for a prolonged period, (iii) lost production or (iv) increases in Operating Costs. Further, significant physical effects of climate change including extreme weather events can also have an adverse impact on the Partnership's activities and assets. As the effects of climate change potentially increase, the frequency and impact of weather and climate-related events and conditions potentially could increase as well. The Partnership's development and production activities could also be adversely affected by other events beyond the Partnership's and the Managing General Partner's control such as: environmental protests, denial of access to Partnership Wells by landowners, explosions involving the Partnership Wells or other energy assets or gathering and pipeline systems to which the Partnership Wells are connected, and other events that may excuse the Managing General Partner acting as the general drilling contractor or Operator from performance under the force majeure clause of the Operating Agreement, which may cause a loss of production from temporary cessation of activity or lost or damaged equipment and facilities.

Risk of Adverse Effects of Pandemics, including the COVID-19 Pandemic.

Global or national health concerns, including the outbreak of pandemic or contagious disease, can negatively impact the global economy and, therefore, demand and pricing for oil and natural gas products. For example, the World Health Organization declared the novel coronavirus ("COVID-19") a pandemic in March 2020, and the continued duration and severity of the COVID-19 pandemic led to a reduction in the demand for oil and gas, which resulted in a major downturn in commodity prices during 2020. COVID-19 and the related actions taken by governments and businesses to manage the pandemic, including voluntary and mandatory quarantines and restrictions on movement and travel, resulted in a significant and swift reduction in global economic activity.

The outbreak of communicable diseases, or the perception that such an outbreak could occur, could result in a widespread public health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could negatively impact the demand for oil and natural gas products. Furthermore, uncertainty regarding the impact and length of any outbreak of pandemic or contagious disease, including COVID-19, could lead to increased volatility in oil and natural gas prices. The occurrence or continuation of any of these events could lead to decreased revenues from oil and gas exploration activities, which could adversely affect the Partnership's business and operations, and therefore your investment.

The length of time during which any such impacts will exist is an unknown and an additional risk as the longer any such impacts last the greater the potential for adverse consequences to the Partnership, and therefore to your investment. Further, there is a risk that such impacts could negatively affect the performance of the Partnership and External Operators or the ability of U.S. Energy to fulfill its duties as Managing General Partner or as Operator. There can be no assurance that any future closure orders and related "stay at home" orders will not disrupt employee and

supplier relationships, or that suppliers and other service providers will not determine such orders require them to cease conducting business or take other preventative measure that affect the Partnership's ability to conduct its operations. Further, if a worker on site contracts a contagious disease the Managing General Partner may determine to suspend operations voluntarily to quarantine other workers who may have come into contact with the infected worker. COVID-19 and other potential pandemic or contagious disease present material uncertainty and risk with respect to the performance of the Partnership.

Since 2021, the Managing General Partner has periodically experienced inflationary pressures resulting in increases in the cost of labor, materials and equipment, including fuel, field services and field equipment, which, in turn, caused our capital expenditures and operating costs to rise. When they arose, these inflationary pressures were largely a result of supply chain disruptions following the COVID-19 pandemic and, more recently, increased geopolitical instability, and the resulting increase in global demand for certain field services and equipment, challenges in the supply of labor and/or labor shortages. While COVID-19-related supply pressures have eased and the Managing General Partner doesn't currently envision inflationary pressures remaining a challenge, supply chain constraints and inflationary pressure on our cost structure in future periods may occur. If inflationary conditions worsen, they could result in increased capital expenditures and operating costs, reduced margins and production delays and adversely impact the timing and results of operations from our major projects. As a result, the Partnership, its financial position and results of operations could be adversely affected.

Risk of Limited Information Regarding the Wells.

To the extent the Partnership engages in drilling and operation of wells, the wells in which the Partnership participates will be selected by the Managing General Partner based upon information available to the Managing General Partner at the time of selection. The Managing General Partner will select wells, based upon such information, that it believes have the potential for commercial production. However, there can be no guaranty that (i) if additional information were available the same selection would have been made, or (ii) the wells selected will be successful.

The Partnership does not have the right of first refusal in the selection of well locations from the inventory of the Managing General Partner and its Affiliates, and they may sell their well locations to other partnerships, companies, Joint Ventures, or other persons, including persons affiliated with the Managing General Partner, at any time. Although the Managing General Partner has sole discretion in which well locations to sell to the Partnership, when selecting and allocating well locations, it will consider, among other things, (i) well locations that are in the best interests of the Partnership and (ii) whether allocation of well locations amongst the Partnership and other partnerships, companies, Joint Ventures, or other persons including persons affiliated with the Managing General Partner, are conducted in a fair and equitable manner. When allocating well locations amongst itself, the Partnership, other partnerships, companies, Joint Ventures, or other persons, the Managing General Partner may take into account, among other factors, the spud dates of the wells, each entity's or other person's inventory needs, location of the wells, and each entity's or other person's availability of capital.

Risk Created by the Lack of Production Data regarding Potential Drilling Areas.

The information in this Memorandum regarding certain areas where wells to be drilled by the Partnership may be located has been prepared by the Managing General Partner from sources that it believes are reliable. However, there is a risk that the data the Managing General Partner relies on does not include, among other things:

- all the wells drilled in the area; or
- the correct volume of oil or natural gas produced from the wells previously drilled in the area, particularly with respect to wells which have been producing for only a short period of time.

The same risks will apply to all areas where the Partnership Wells may be located.

Risk of Potential Depletion of Reserves.

To the extent the Partnership engages in drilling and operation of wells, the Partnership Wells will be drilled in areas based upon the results of existing wells drilled by the Managing General Partner or other third parties. The potential for partial depletion is one of the many factors the Managing General Partner will consider in selecting the Partnership Wells. However, there is a risk that production from such wells may have partially depleted or drained the reserves that will be targeted by wells drilled by the Partnership, thus potentially reducing the volume of oil or natural gas that will be produced by the applicable Partnership Wells.

Risk of Loss from Drilling Hazards.

There are numerous possible natural hazards involved in the drilling of wells. These items are not covered in the estimates of the drilling price and include, for example:

- well cratering and blowouts, fires, and explosions;
- pipeline ruptures or spills and uncontrollable flows of natural gas or well fluids; or
- pollution, releases of toxic gas, accidental leakages, and other environmental hazards and risks.

Any of these hazards may cause damage to property and third parties such as:

- surface damage;
- bodily injury;
- damage to and loss of equipment;
- reservoir damage; or
- loss of reserves.

If there are uninsured liabilities, then this will reduce the funds available to the Partnership and may result in the loss of Partnership production and/or properties.

Risk Related to ESG Matters.

In recent years, there has been increasing scrutiny on ESG matters from regulators, the investment community, the media, and more generally in the public discourse. There are third-party organizations that provide information to investors on the corporate governance practices of public and private companies, which include ratings processes for evaluating companies on their approach to ESG matters, as well as increasing attention and demands for action related to climate change and promoting the transition away from fossil fuel as a primary energy source. A failure to understand and respond to investor or public discourse or unfavorable ESG ratings could lead to reputational harm and negative investor sentiment toward the Partnership, the Managing General Partner, or its Affiliates, which may adversely affect profitability and the overall Partnership performance.

Furthermore, environmental concerns relating to the oil and gas industry's operating practices are expected to increasingly influence government regulation and consumption patterns which favor cleaner burning fuels, such as gas. Future compliance with existing emissions legislation or any future emissions legislation could adversely affect the Partnership's profitability. Future legislative initiatives designed to reduce the consumption of Hydrocarbons could also have an impact on the Managing General Partner's ability to market the Partnership's oil and gas, and the prices which the Partnership is able to obtain, which in turn may adversely affect the Partnership's business, results of operations, cash flow, or financial condition.

Risk Related to Climate Change and Climate Change Legislation and Regulatory Initiatives.

The Partnership faces several risks associated with climate change including both transitional and physical risks. The transitional risks that could impact the business include those risks related to the impact of U.S. and foreign climate- and ESG-related legislation and regulation, as well as risks arising from climate-related business and financial market trends. Moreover, physical impacts of climate change are also a risk to the Partnership's business and results of operations. The Partnership's business and results of operations could be adversely affected by climate change and the adoption of new climate change laws, policies, and regulations. Growing concerns about climate change and greenhouse gas ("GHG") emissions have led to the adoption of various regulations and policies, including the Paris Agreement negotiated at the 2015 United Nations Conference on Climate Change, which requires participating nations to reduce carbon emissions in line with a future consistent with a temperature increase of no more than 2 degrees Celsius above pre-industrial levels. Additionally, at the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change in November 2021, the United States and the EU jointly announced the launch of a Global Methane Pledge, an initiative committing to a collective goal of reducing global methane emissions by at least 30% from 2020 levels by 2030, including "all feasible reductions" in the energy sector. The full impact of these actions cannot be predicted at this time.

Furthermore, future global policy may be further influenced by recent reports from organizations such as the International Energy Agency, who published their May 2021 report "Net Zero by 2050" report, which highlights a large reduction in oil production as part of the mix of energy sources over the next two decades and proposes that no new oil and gas fields should be approved beyond projects already committed as of 2021. These drivers could potentially impact the Partnership's financial position in three principal ways. First, a block on the development of new oil and natural

gas wells would have a significant impact on the Partnership's business model, as oil and natural gas wells are expected to be a significant component of the Partnership's investments. Second, higher carbon taxes and carbon costs may impact the Partnership's profitability. Third, global efforts to respond to the challenges of climate change may have an impact on the value of the price of oil and gas moving forward, as countries and markets increasingly shift toward alternative energy sources, which may in turn impact the Partnership's revenues in the long term.

Risk Related to Restricting Emissions of Greenhouse Gases.

The United States Environmental Protection Agency (the "EPA") has adopted regulations under the federal Clean Air Act that require entities that produce certain gases to inventory, monitor, and report such gases including natural gas processing, transmission, storage, and distribution activities. Additionally, the EPA issued rules to regulate GHG emissions through traditional major source construction and operating permit programs. These permitting programs require consideration of and, if deemed necessary, implementation of "best available control" technology to reduce GHG emissions. As a result, the Partnership's operations could face additional costs for emissions control and higher costs of doing business. In addition, many states have taken legal measures to reduce emissions of GHGs. The adoption of any legislation or regulation that requires additional reporting of GHGs or further limits emissions of GHGs from the Partnership's equipment and operations that are in addition to the EPA's rules under the Clean Air Act discussed above could further increase the Partnership's costs to monitor and report on emissions of GHGs or reduce emissions of GHGs associated with its operations, and also could adversely affect demand for the oil and natural gas that the Partnership produces. The oil and gas industry, among others, has generated publicity, been the subject of governmental inquiry, and been involved with litigation alleging a contribution to climate change. Any successful claims against the Partnership may affect the Partnership's business, financial condition, and/or results of operations resulting in decreased distributions to Investors.

Risk Related to Disposition of Assets.

The Partnership's ability to dispose of assets could be affected by various factors, including the availability of purchasers willing to purchase such assets at prices acceptable to the Partnership. Sellers typically retain certain liabilities or agree to indemnify buyers for certain matters and to divest certain assets the Managing General Partner may provide an indemnity to a buyer. The magnitude of any such retained liability or indemnification obligation may be difficult to quantify at the time of the transaction and ultimately may be material. Also, third parties may be unwilling to release the Partnership from guaranties or other credit support provided prior to the sale of the divested assets. As a result, after a sale, the Partnership may remain secondarily liable for the obligations guaranteed or supported to the extent that the buyer of the assets fails to perform these obligations.

SPECIAL RISKS RELATED TO MINERAL ACQUISITIONS

Risk that the Price Paid for the Mineral Interests is Excessive.

The Partnership will rely on the Managing General Partner for assistance in identifying and acquiring potential mineral interests and in identifying and negotiating the price to be paid for such mineral interests. There is a risk that the price identified and/or negotiated by the Managing General Partner will be higher than is appropriate. Further, the Managing General Partner may

recommend that the Partnership acquire mineral interests from entities whose business consists of acquiring or aggregating mineral interests for sale. Those entities will charge an amount for such mineral interests that provides them with a profit, thus increasing the costs of such mineral interests. However, it is the experience of the Managing General Partner that such entities can provide access to mineral interests that, even while making a profit, will be lower than the costs that would be incurred to acquire comparable mineral interests. Higher prices for mineral interests will reduce the number of mineral interests that may be acquired by the Partnership.

Risk of Nonproductive Wells.

Some of the wells which could develop potential mineral interests may either not yet have been drilled, completed (hydrofractured), nor put into production. There is a risk that such wells may be nonproductive and must be plugged and abandoned either before production or before producing substantial volumes of oil, gas, or other Hydrocarbons. If one or more of the wells involved are nonproductive, the remaining wells may not produce sufficient volumes of oil, gas and/or Hydrocarbons to offset the lost anticipated revenues from the nonproductive wells.

Risk That Unleased Mineral Interests Will Not Be Leased.

Unless the owners of the mineral interests themselves drill wells to develop the oil and gas reserves acquired by the Partnership, which is not contemplated, development of unleased mineral interests will be dependent on the owners of the mineral interests entering into oil and gas Leases. There is no guarantee that leasing will take place or that the terms offered by potential lessees will be comparable to those assumed in the valuation of the mineral interests. The inability to lease the unleased mineral interests, or to lease them on terms at least as favorable as those anticipated in the valuation of the mineral interests, could negatively affect their value.

Risk that Additional Development of Mineral Interests Does Not Occur.

The purchase price the Partnership may pay for mineral interests may be supported by the assumption that additional wells will be drilled to further develop such mineral interests (i.e., produce more oil and/or gas). The decision whether or not to drill an additional well will, in each case, be made by the lessee of the applicable oil and gas Lease and is likely to be determined by factors beyond the control of the owner of the mineral interests (for example, current drilling and completion costs, availability of oil and/or gas markets, current or contemplated oil and/or gas prices). The value of the mineral interests could be negatively impacted if additional development does not take place.

Risk That Information Relied Upon When Purchasing Mineral Interests Is Inaccurate.

The process of valuing mineral interests for purchase relies on information concerning historic oil and gas production volumes from wells affecting the mineral interests and other similar wells. This information is obtained from the applicable state regulatory agency which in turn obtains the information from reports submitted by the Operators of the applicable wells. The information is not subject to verification and thus its accuracy cannot be guaranteed. There is a risk that inaccurate information may impact the valuation, either negatively or positively.

Returns from Mineral Interests Will Largely Depend on Reserve Estimates and Production Risks.

The value of mineral interests is substantially dependent upon the value of the oil and gas reserves underlying the subject premises, which can change from time to time based upon market pricing conditions, future production, and development activities that can potentially increase reserves, and depletion that can decrease such reserves over time. There are many uncertainties inherent in determining quantities and values of such oil and gas reserves and in projecting future rates of production. Accordingly, there is a risk that actual oil and/or gas reserves and related fair market values of mineral interests may deviate substantially from the Partnership's expectations.

Risk Created by Required Reliance on the Lessee/Operator Under the Oil and Leases Affecting Any Mineral Interests.

Other than having the right to require the lessee/Operator to comply with the provisions of the applicable oil and gas Lease, the Partnership will have no voice in the development of the mineral interests, in the operation of the wells related to the mineral interests, or in the marketing of the Hydrocarbons produced from such wells. The Partnership will have to rely on the lessee/Operator to make appropriate decisions and take appropriate actions with respect to the development of the mineral interests.

Risk Concerning Possible Title Defects.

There is a risk of title failure, which could result in a loss of the mineral interests to which the title relates. The Partnership may not obtain independent attorney title opinions when acquiring mineral interests, and instead rely on reviews of related documents and, if they are available, existing title opinions, and, in some cases, a landman's review of courthouse records, in acquiring mineral interests. Accordingly, there is a risk that potential title defects are not discovered by the Partnership prior to its acquisition of mineral interests.

SPECIAL RISKS RELATED TO THE INVESTMENT STRATEGY

Risk Regarding Alternative Energy Projects.

The use of renewable sources to generate energy and the technology involved in Alternative Energy Projects is rapidly expanding. The growth in the use of renewable sources to generate energy has been supported by government programs at both the state and federal levels in the form of tax credits, grants, loans and other incentives, which has contributed to Alternative Energy Projects becoming more competitive in recent years. Numerous entities are now developing Alternative Energy Projects and many of those entities have resources greater than those available to the Partnership. These factors create various risks related to potential investments in Alternative Energy Projects, including:

- the cost to produce energy from Alternative Energy Projects may increase, or the price at which such energy can be sold may decrease, for various reasons, including a change in governmental support for such projects, which may negatively impact your investment;
- increased production from competing Alternative Energy Projects could affect the demand for produced energy or the ability to deliver the produced energy to market; and
- variations in weather could impact the production of energy for certain types of Alternative Energy Projects.

Risk because Other, Related Energy Assets Are Dependent on Production from Area Wells for Revenues.

The Partnership may acquire, in addition to existing oil and natural gas wells, other assets such as pipeline gathering and transportation systems, saltwater disposal wells, stripping plants (for the removal of liquid Hydrocarbons from natural gas), and other treatment facilities. Such assets will be dependent on production from area wells for revenues and accordingly will be susceptible to all of the potential problems discussed herein in relation to wells.

Risk Associated with Gathering and Transportation Systems.

Gathering systems consist of pipelines that deliver gas produced by wells connected to the system to a common delivery point. Transportation systems are pipelines that transport gas or other Hydrocarbons. In addition to being dependent on production from area wells for revenues, there are risks related to possible leaks or similar damage to the pipelines, which are mitigated by proper system design and maintenance, as well as by insurance. Leaks or similar damage could result in incidents of pollution, loss of product for which the pipeline owner would potentially be liable, personal injury, or property damage.

Risk Associated with Saltwater Disposal Wells.

Most oil and gas wells also produce saltwater (“**Brine**”). The Brine is separated from the oil and natural gas and must be disposed of. One method of disposal involves injecting the Brine into a subsurface formation through a disposal well. The Partnership may invest in saltwater disposal wells in areas where such wells are commonly used for the disposal of Brine. In such areas, the disposal wells are regulated by the same state agencies that regulate oil and natural gas wells. In addition to the dependence upon the volume of Brine for revenues, there are certain risks associated with saltwater disposal wells, primarily related to potential surface pollution claims and claims of contamination of subsurface water supplies. Also, there are allegations that the use of saltwater disposal wells have resulted in seismic activity.

Risk Related to Net Profit Interests and Royalties.

The Partnership may acquire interests in wells and/or Leases that entitle it to receive a percentage of the net or gross revenues from production. Profits and the recoupment of the initial investment in such interests will be dependent upon the successful development and operation of such wells and Leases, which may be undertaken by unrelated third parties over which the Managing General Partner has no influence or control.

Risk Related to the Acquisition of Undeveloped Leases.

The Partnership may acquire undeveloped oil and gas Leases, or partial interests in such Leases, from which it would intend to sell well locations, or entire Leases, for development purposes. The price at which the well locations or Leases can be sold, and thus the profitability of such investment, will be dependent upon many factors, including for example then current oil and/or natural gas prices, but most significantly upon the geological potential of the properties involved. Thus, adverse results from nearby development activities or other factors, such as a decline in oil and natural gas prices, could negatively impact the value of the undeveloped Leases.

Risk Associated with Loan Acquisitions.

While not a priority acquisition target, it is possible that the Partnership may acquire existing loans, secured by energy-related assets. The Partnership will not make loans to borrowers but will consider such acquisitions based, in part, on favorable interest rates. With any loan transaction, there is a risk that the borrower is unable or unwilling to repay the debt. If debt service on a loan acquired by the Partnership is not paid when due, there will be a delay in the receipt of revenues by the Partnership, potentially also as a result of the bankruptcy of the debtor. If this occurs, the Partnership may be required to foreclose its lien on the energy-related assets securing the loan, which may result in further delays in revenue realization and in the expenditure of an indeterminate amount for legal fees. If a foreclosure sale does not result in a third-party bid for the energy-related assets sufficient to repay the balance due on the loan, it may be necessary for the Partnership to take title to, and operate, such energy-related assets. The Managing General Partner will only consider the acquisition of loans where the value of the assets securing repayment substantially exceeds the balance due on the loan.

RISKS RELATED TO THE NATURE AND STRUCTURE OF THE INVESTMENT

Risk of a Long-Term Investment because the Units Are Illiquid and Not Readily Transferable.

If you invest, you must assume the risks of an illiquid investment. The transferability of the Units is limited by federal and state securities laws, tax laws, and the Partnership Agreement. The Units cannot be readily liquidated, and there is no market for the sale of the Units. Also, a sale of your Units could create adverse tax and economic consequences for you.

Risk of Reduced or Delayed Distributions.

Although the Managing General Partner intends, to the extent there is cash flow to distribute, to make quarterly cash distributions, there is a risk that you will not receive cash distributions every period as no cash flow may be available for distributions, or distributions may be deferred to the extent Partnership revenues are used for the following, among other things:

- costs related to completing additional wells;
- remedial work to improve one or more well's producing capability or to improve the revenue potential of a Partnership asset;
- repayment of borrowings;
- reserves, including a reserve for the estimated costs of plugging and abandoning wells at the end of their productive life; or
- indemnification of the Managing General Partner or its Affiliates by the Partnership for losses or liabilities incurred in connection with the Partnership's activities.

There is also a risk that distributions from a well the Partnership participates in could be delayed for various reasons. For example, most oil purchasers will not begin making payments for the oil they are purchasing until they receive an attorney's division order title opinion indicating who is

entitled to receive such revenues and in what percentages. Distributions of revenues from natural gas sales may also be delayed until an attorney's division order title opinion is received. Complex mineral ownership issues in the regions where the Partnership Wells may be drilled has sometimes resulted in a backlog of such opinions and delays in their receipt. Accordingly, at times oil purchasers have accumulated payments for oil purchases, and operators have accumulated natural gas production revenues, until the division order title opinion for a well is received.

As further described above under "Risk of Reduced Partnership Distributions Because of a Decrease in the Price of Oil or Natural Gas.", there is also a risk that low production from the Partnership Wells could reduce distributions and potentially result in a loss of investment capital.

Risk that the Managing General Partner Cannot Meet Its Capital Contribution, Indemnification and Repurchase Obligations because Its Liquid Net Worth Is Not Guaranteed.

The Managing General Partner has made commitments to you and the other investors regarding the following:

- the payment of a portion of the Organization and Offering Costs; and
- repurchasing the Units.

A significant financial reversal for the Managing General Partner could adversely affect its ability to honor these obligations which would reduce the value of the Units. (See Section XXX (Financial Information Concerning the Managing General Partner)).

The net worth of the Managing General Partner is based primarily on the estimated gross value of its producing oil and natural gas reserves and is not available in cash without borrowings, if available, or a sale of the properties. Also, if oil or natural gas prices decrease the estimated value of the properties and the net worth of the Managing General Partner will decrease. There is no assurance that the Managing General Partner will have the necessary net worth, either currently or in the future, to meet its financial commitments under the Partnership Agreement. These risks are material because the Managing General Partner has made and will make similar financial commitments in other partnerships and, as a result, the amount of the Managing General Partner's assets available to satisfy its indemnification obligation may be limited.

Risk that the Managing General Partner Has Insufficient Access to Funds.

The Managing General Partner maintains a bank revolving credit facility as a source of funds for working capital purposes and general corporate uses. The credit facility is secured by substantially all of the assets of the Managing General Partner and the amount available under the credit facility is periodically adjusted, primarily based upon a revaluation of those assets. Oil and gas assets are valued using estimates of future production and current and projected commodity prices. Thus, when commodity prices decline the amount available under the credit facility decline. The amount available under the credit facility may further decrease, or increase, as a result of the periodic reviews of the value of the loan collateral. Also, the bank with whom the Managing General Partner maintains the credit facility has changed from time to time. It is possible that if there is a decrease in the available amount under the credit facility, or if the Managing General Partner is unable to

maintain such a facility, it may have insufficient access to funds when needed to meet its obligations to the Partnership.

Risk Related to Hedging.

The Partnership may engage in various forms of hedging activity in an effort to reduce its exposure to variations in the price of oil or natural gas. Hedging may include the owner or Operator of a well or wells preselling a fixed volume of projected production at a fixed price to protect against the effects of significant decreases in the price of oil or natural gas. Hedging also may include entering into derivative contracts to fix the price of futures sales of anticipated production. The Partnership may determine to hedge some, all, or none of the anticipated production from its wells. There are risks associated with hedging, including that the price at which the oil or natural gas is presold will be less than market value at the time of delivery or that the owner or Operator will be unable to deliver the committed volumes from its wells requiring the owner or Operator to replace such volumes by purchasing the same, potentially at a higher price than it will be paid or pay substantial penalties. The Partnership, if it hedges, will also be exposed to the risk of non-performance by the counterparties to the forward and/or derivative agreements. Although the Partnership may hedge a portion of its estimated production, the hedging program may be inadequate to protect the Partnership, and by extension your investment, against continuing and prolonged declines in the price of oil and natural gas, if they occur.

RISKS RELATED TO THE TERMS OF THE PARTNERSHIP

Risk That a Project Identified by the Partnership Is Not Completed.

The Partnership may identify, elect to participate in, and set money aside for participation in, a project that does not go forward or that is discontinued before it is completed. There are numerous reasons why this could occur including, but not limited to, changes in market conditions or the acquisition of new information suggesting that the project may not be successful. If such event occurs, the Partnership will attempt to liquidate any assets it acquired for such project and will invest any monies that were set aside, but not expended, for such project in another project. However, such event could result in a loss on the assets that were acquired and a delay in obtaining any return on the capital being re-deployed.

Risk Created by Your Required Reliance on the Managing General Partner.

The Managing General Partner will have the exclusive right to control the Partnership's activities. You should purchase Units only if you are willing to entrust all aspects of Partnership management to the Managing General Partner.

While the Managing General Partner has sponsored many partnerships investing in oil, gas and other energy related assets since 1999, which are described in Section X (Prior Activities), the Managing General Partner can offer no assurance that you and the other Investors will experience returns, if any, comparable to those experienced by investors in prior partnerships. Notwithstanding such partnerships, there is no guarantee that these targets will be achieved or that past performance by the partnerships is an indication of future returns for the Partnership. The past performance of the Managing General Partner's prior partnerships is not necessarily indicative of future results. Among other factors, the past performance of the Managing General Partner's partnerships may not reflect the Management Fees, interest, transaction costs, and other expenses to be borne by

Investors in the Partnership, and many macro and micro economic factors and external circumstances could influence financial performance. Prior economic cycles and events, both positive and negative, during which past performance was achieved, may not be repeatable in the future. There can be no assurance that the Partnership will generate investment returns commensurate with the performance of prior partnerships.

Risk Associated with Partnership Borrowings.

Under the Partnership Agreement, the Partnership has the right to borrow and have outstanding, at any one time, up to an amount equal to fifty percent (50%) of the greater of (i) Subscription Proceeds or (ii) the value of its aggregate reserves, as determined by an unaffiliated third party lender, in each case, calculated at the time such indebtedness is incurred, for any business purposes, including with respect to the drilling or operation of the Partnership Wells and for expenses related to hedging. The Partnership further has a right to use Partnership assets to secure the repayment of obligations under such loans. If a loan is required or otherwise beneficial with respect to the Partnership's assets, the lender could be the Managing General Partner or one of its Affiliates, in which case any such loan must be on terms that are no less favorable to the Partnership than would be available from a third-party debt financing provider, as reasonably determined by the Managing General Partner. Loans also could come from a third-party debt financing provider.

With any loan there is a risk that Partnership revenues could be insufficient to make required payments of obligations under that loan, or such payment obligations could become the primary use of Partnership revenues, thus eliminating or significantly diminishing distributions. If Partnership revenues were insufficient to make required payment obligations, there is a risk that the Partnership could default on its loan payment obligations. In the event of a default, the lender could be entitled to additional amounts beyond the amount of the loan, including default rate interest and costs and expenses. Also, in the event of a default, there is a risk that the lender could force the sale of the well interests and assets it has a security interest in, to apply to repayment of the amounts it is owed and, if that was insufficient, could seek a lien against all other Partnership assets.

It should also be noted that loan payments are not treated as operating expenses for income tax purposes.

Risk that Borrowings by the Managing General Partner Could Reduce Funds Available for Its Obligations.

The Managing General Partner anticipates that it will pledge either its own Partnership interests and/or its own undivided interest in the assets of the Partnership to secure borrowings for its own corporate purposes. If there was a default to the lender under any such pledge arrangement, then the amount of cash available to the Managing General Partner for its obligations to you and the other Investors could be reduced.

Compensation and Fees to the Managing General Partner regardless of Success of the Partnership's Activities.

The Managing General Partner and its Affiliates may profit from the Partnership for their, or the External Operators', services in drilling, completing, and operating the Partnership Wells under the Operating Agreement, or agreement with an External Operator, and will receive the other fees described in Section VIII (Compensation), regardless of the success of the Partnership Wells.

Risk Arising from Conflicts of Interest between Managing General Partner and the Investors.

There are potential conflicts of interest between you and the Managing General Partner and its Affiliates (See Section XV (Conflicts of Interest)). Other than certain guidelines set forth in Section XV (Conflicts of Interest), the Managing General Partner has no established procedures to resolve a conflict of interest.

Risk Related to the Purchase of Minimum Number of Units.

Units may be purchased by the officers, directors, or Affiliates of the Managing General Partner, or by other persons who will receive fees, other compensation, or gain dependent upon the success of this Offering. Such purchases may be made at any time and will be counted in determining whether the required minimum level of purchases has been met for the closing of the Offering. Investors therefore should not expect that the sale of sufficient Units to reach the specified minimum, or in excess of that minimum, indicates that such sales have been made to investors who have no financial or other interest in the Offering, or who otherwise are exercising independent investment discretion. The sale of the specified minimum is not designed as a protection to Investors to indicate that their investment decision is shared by other unaffiliated Investors. Because there may be purchases by officers, directors, or Affiliates of the Managing General Partner, or other persons who will receive fees, other compensation, or gain dependent upon the success of the Offering, no individual Investor should place any reliance on the sale or the specified minimum as an indication of the merits of this Offering. Each Investor must make their own investment decision as to the merits of this Offering.

Risk that Presentment Obligation May Not Be Funded and Repurchase Price May Not Reflect Full Value.

Subject to certain conditions, once each year between January 1 and March 31, beginning two years after seventy-five percent (75%) or more of all Partnership funds are invested, you may present your Units to the Managing General Partner for purchase. There is a risk that the Managing General Partner may determine that it does not have sufficient cash flow after taking into account amounts that the Managing General Partner deems prudent or advisable to retain for operational purposes or as reserves, or it deems it not prudent to borrow funds for this purpose on terms available to the Managing General Partner. In such event, the Managing General Partner is able to suspend the presentment feature. This risk is further increased because the Managing General Partner has and will incur similar presentment obligations in connection with other partnerships. However, the Partnership is also a potential purchaser of Units presented pursuant to this feature if the Managing General Partner determines such purchase to be appropriate for the Partnership at such time and determines that the Partnership has the necessary funds available for such purchase. Also, the Managing General Partner may not purchase more than ten percent (10%) of the Units in any calendar year.

Further, there is a risk that the presentment price may not reflect the full value of the Partnership's property or your Units because of the difficulty in accurately estimating oil and natural gas reserves, and potentially other Alternative Energy Projects and energy-related assets.

The Managing General Partner will calculate the presentment price based upon its estimate of the Partnership's oil and natural gas reserves and its estimate of the net worth of other assets based upon projected future income. The investor seeking to sell its Unit(s) pursuant to the presentment

feature can require the Managing General Partner to use an independent third-party expert to estimate the reserves but only if such investor pays all costs related to the use of the independent third-party expert. The estimates are merely appraisals of value and future production and may not correspond to realizable value. Reservoir engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way, and the accuracy of the reserve estimate is a function of the quality of the available data and of engineering and geological interpretation and judgment. There can be no assurance that the presentment price paid for your Units and any revenues received by you before the presentment will be equal to the purchase price of the Units. You might realize a greater return if you retain the Units, which you may elect, rather than selling the Units to the Managing General Partner.

The presentment feature does not prohibit the sale of your Units to the Managing General Partner, on mutually acceptable terms, at any time before or after seventy-five percent (75%) or more of all Partnership funds are invested, but the Managing General Partner is not obligated to make such a purchase.

Risk that the Managing General Partner Will Not Devote the Necessary Time to the Partnership because Its Management Obligations Are Not Exclusive.

The Managing General Partner must devote the amount of time to the Partnership's affairs that it determines is reasonably necessary. However, the Managing General Partner and its Affiliates will be engaged in other oil or natural gas and energy related activities, and possibly other unrelated business ventures, for their own account or for the account of others during the term of the Partnership, including other partnerships. Thus, there is a risk that the Managing General Partner will not devote the necessary time to the Partnership.

Managing General Partner Will Receive Benefit from Development of Partnership Well Locations.

Each well location is limited to the drilling or spacing unit permitted by federal, state, or local law or practice on which one well will be drilled, and the Partnership will only receive a wellbore Assignment for each well in which it participates. The Managing General Partner may acquire or retain interests in the surrounding acreage. If the Partnership participates in drilling new wells or acquires existing wells, the Partnership Wells will provide production and geological information for the surrounding acreage from which the Managing General Partner can determine the feasibility of drilling wells on the surrounding acreage. However, the Partnership will not have the right to, and may not, participate in drilling these wells even if its production data helped determine the value of drilling the wells. If the Partnership makes an acquisition which includes proven undrilled well locations ("PUDs"), the Partnership may drill one or more wells at such locations, in which event it will benefit from such information. Alternatively, if the PUDs are then acquired (or acquired in the same transaction) by the Managing General Partner, the Managing General Partner will compensate the Partnership for such PUDs, but the Managing General Partner will be solely responsible for determining the amount and form of such compensation.

Risk That Dissolution of the Partnership or Withdrawal or Removal of the Managing General Partner May Have Adverse Effects.

If the Partnership was dissolved, you could receive a distribution in-kind of a direct property interest in the wells and be responsible for the costs and liabilities associated with the property

interest. As a joint interest owner, you could have joint and several liability for the obligations or liabilities arising out of joint owner operations. Also, obtaining insurance protection for your property interest or disposing of your property interest might be restricted or limited.

Ability to Enter into Side Letters.

The Partnership and/or the Managing General Partner may enter into side letters or other similar agreements without the approval of other Partners or LLC Members which would have the effect of establishing rights under, or altering or supplementing the terms of, the Partnership Agreement, the LLC Operating Agreement and/or the Subscription Agreement with respect to such Partner or LLC Member in a manner more favorable to such Partner or LLC Member than those applicable to other Partners or LLC Members. Any rights or terms so established in a side letter or other similar agreement with a Partner or LLC Member will govern solely with respect to such Partner or LLC Member.

REGULATORY AND LEGAL RISKS

Impact of State and Federal Securities Laws.

This Offering has not been registered under the Securities Act of 1933. Instead, the Partnership is relying on Rule 506(c) of Regulation D, a safe harbor under Section 4(a)(2) of the Securities Act of 1933, and exemptions from securities registration under the applicable state securities laws. There is a risk that the Offering does not qualify under these exemptions. If suits for rescission are brought for failure to comply with these regulations and laws, then the capital and assets of the Managing General Partner and the Partnership could be adversely affected. The Partnership will indemnify the Managing General Partner regarding allegations of, and expenses related to, violations of securities laws and regulations, other than those arising from the gross negligence or willful misconduct of the Managing General Partner, and as further described in the Partnership Agreement.

Risks Related to Legislation and Regulation of Hydraulic Fracturing.

In recent years, multiple legislative and regulatory initiatives have been proposed and/or adopted at federal, state, and local levels including bills introduced in Congress that would subject hydraulic fracturing to federal regulation under the Safe Water Drinking Act. These laws and regulations could result in additional permitting requirements for hydraulic fracturing operations as well as various restrictions on those operations that could result in delays in drilling and completion operations as well as increased costs to make the wells productive. Moreover, such laws and regulations require and/or could further require the public disclosure of certain information regarding the chemical makeup of hydraulic fracturing fluids, many of which are proprietary. Such disclosures could make it easier for third parties to initiate litigation against the Partnership in the event of perceived or alleged problems with drinking water wells in the vicinity of a Partnership Well or other alleged environmental problems. These permitting requirements and restrictions could result in delays in operations at well sites as well as increased costs to make well productive, which would increase the cost of drilling and completing the wells and reduce the amount of distributions to investors. Additional ongoing or future studies at the federal, state, and local levels could result in future proposals to further regulate hydraulic fracturing.

Risk of Failure to Comply with Environmental Regulations and/or Risk of Pollution and Environmental Liabilities.

The Partnership's operations, wells, and other facilities will be subject to stringent and complex federal, state, and local environmental laws and regulations. Complying with these requirements may increase the Partnership's costs and delay its production. There can be no assurance that the Partnership will be able to obtain all necessary permits or approvals and, if obtained, that the costs associated with obtaining the permits or approvals will not exceed the costs that previously had been estimated. Failure to comply with these laws and regulations also may trigger a variety of administrative, civil, and criminal enforcement measures including the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations. Certain environmental statutes impose strict, joint, and several liability for costs required to cleanup and restore sites where hazardous substances have been disposed or pollution has occurred. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances or other waste products into the environment. The Partnership may be subject to liability for pollution and environmental damage as described in Section II (Risk Factors - Risk of Loss from Drilling Hazards) and Section XIII (Competition, Markets, and Regulation - Environmental Regulation). Also, certain environmental claims may not be covered by insurance and/or the Partnership may not be able to recover remediation cost under its insurance policies. While the Biden administration increased environmental regulation on fossil fuels and restrictions on hydraulic fracturing, such regulations and restrictions could be decreased under the Trump administration.

There is a risk that environmental regulatory matters may:

- substantially increase the Partnership's cost of doing business;
- cause delays in the drilling and completion of the Partnership Wells;
- cause delays in producing oil and natural gas from the Partnership Wells; or
- require modifying operations in certain areas.

Risk of Litigation.

There has been increased criticism of the oil and gas industry and particularly of the process of hydraulic fracturing, which critics claim has adversely impacted nearby aquifers, an allegation which the industry strongly denies. Hydraulic fracturing has been in use for more than 60 years as a means of enhancing production from wells and is likely to be used in Partnership Wells. If water quality issues arise in the locations where the Partnership operates, there is the possibility of litigation against the Partnership. See further description with respect to the Partnership's potential environmental liability under Section II (Risk Factors - Risk Related to the Use of Hydraulic Fracturing in Completing Wells; Risk Factors - Risk of Failure to Comply with Environmental Regulations and/or Risk of Pollution and Environmental Liabilities).

The Partnership faces the risk of litigation and other proceedings in relation to its business. Given the nature of its business, there is a risk that the Partnership may incur costs related to changes to, or stricter enforcement of, regulations, or claims brought by third parties or governmental agencies

in relation to climate litigation. The outcome of any litigation or proceedings can affect the Partnership's reputation, disrupt our campaigns or Programs, or otherwise negatively impact our business, prospects, financial condition, and/or results of operations.

Risk Resulting from Change in Law, Rule, or Regulation or the Enforcement Thereof.

The activities of the Partnership will be subject to numerous laws, rules, and regulations which are enforced on the federal, state, and local levels. Changes to such laws, rules, or regulations or the method of their enforcement could affect the costs, timing, associated risks, or ability to conduct Partnership activities, as well as the profitability of the Partnership. A change in any law, rule, or regulation is not under the control of the Managing General Partner.

Possible Leasehold Defects.

The Managing General Partner will assign the Leases or wellbores to the Partnership without warranting title. There is a risk of title failure. The existence of a material title deficiency can render a Lease or wellbore worthless. In the course of acquiring the rights to develop oil and natural gas and energy-related assets, the Partnership may execute an agreement to acquire leasehold or wellbore interests from third parties. The Partnership may incur the expense of retaining lawyers or land professionals to verify the rightful owners of the oil and gas interests and/or prepare division order title opinions prior to payments under such Leases or agreements. There is no certainty, however, that the seller has valid title to the represented oil and gas interests or energy-related assets. As such, title failures may result in fewer net acres and less interest to the Partnership. Failure to cure any title defects may delay or prevent the Partnership from utilizing the associated mineral interest, which may adversely impact the Partnership's ability in the future to increase production and reserves. If there are any title defects or defects in Assignment of leasehold rights in properties in which the Partnership holds an interest, the Partnership will suffer a financial loss or potentially the ability to drill, complete, or operate certain wells or energy-related assets.

Transfer of Interests in the Leases and/or Wellbores May Be Subject to Claims Against Managing General Partner Because Leases Will Not Be Transferred Until the Wells Are Completed.

Because an Assignment of an interest in a Lease and/or wellbore will not be made by the Managing General Partner to the Partnership until after the applicable well is drilled and completed, there is a risk that the transfer could be set aside by a creditor of the Managing General Partner if it were determined that the Managing General Partner did not receive reasonable equivalent value for the transfer. In such event, the Partnership would receive back no more than the amount it paid for the Leases and wells. However, the Managing General Partner believes the amount being paid by the Partnership is fair and reasonable (See Section XII (Proposed Activities - Title to Properties)).

TAX RISKS OF THE PARTNERSHIP

The Tax Benefits of an Investment in the Partnership Are Not Guaranteed.

An investment in the Partnership may be affected by future changes in the tax laws. The risk factors described in this section are based on current law in effect as of the date of this Memorandum; future changes in law may give rise to additional risk, particularly if those changes apply retroactively.

The Tax Benefits of an Investment in the Partnership Are Dependent on the Partnership Being Treated as a Partnership for Federal Income Tax Purposes.

The anticipated after-tax economic benefit of an investment in the Partnership is dependent on the Partnership being respected as a partnership for federal income tax purposes. Although the Partnership is organized as a limited partnership under state law that should default to a partnership for federal income tax purposes, it is possible in certain circumstances for a limited partnership to be taxable as a corporation. For instance, if the Internal Revenue Service (the “**IRS**”) were to successfully assert that the Partnership is a “publicly traded partnership” (including for example if Partnership Units are transferred at a high frequency) and that its income does not consist of “qualifying income” within the meaning of the publicly traded partnership rules, then the Partnership would be treated as a corporation for federal income tax purposes.

Based on its intended method of operation, it is expected that the Partnership should be treated as a partnership for federal income tax purposes. However, there is no assurance that the IRS will not successfully challenge our determination in this regard.

If the Partnership were treated as a corporation for federal income tax purposes, it would pay federal income tax on its taxable income at the corporate tax rate, which is currently a maximum of twenty-one percent (21%), and be subject to state and local income tax at varying rates. Distributions, to the extent related to earnings and profits would generally be treated as corporate dividends, after which they would be a non-taxable return of capital, and any amounts beyond that treated as income from the sale or exchange of corporate stock.

You May Owe Taxes in Excess of Your Cash Distributions from the Partnership.

There is a risk that you may become subject to income tax liability in excess of cash actually received from the Partnership. For example:

- if the Partnership borrows money, your share of Partnership revenues used to pay principal on the loan will be included in your taxable income from the Partnership and will not be deductible;
- if the Partnership borrows money and is subject to the limitation on interest deductions, then your share of certain interest expenses could be deferred (resulting in phantom income to you) until such time as the Partnership has sufficient income to take advantage of its interest deductions;
- taxable income or gain may be allocated to you if there is a deficit in your Capital Account even though you do not receive a corresponding distribution of Partnership revenues;
- Partnership revenues may be expended by the Managing General Partner for non-deductible costs or retained to establish a reserve for future estimated costs, including a reserve for the estimated costs of eventually plugging and abandoning the wells;
- the taxable disposition of Partnership property or your Units may result in income tax liability in excess of cash distributions; and

- if the IRS were to disallow amounts that we have characterized as a deduction, then you may have additional income without a corresponding cash distribution. (See Section XVII (Material United States Federal Income Tax Considerations - Availability of Certain Deductions)).

To the extent the Partnership has cash available for distribution, it is the Managing General Partner's policy that Partnership distributions to Investors will not be less than the Managing General Partner's estimate of the investors' income tax liability with respect to Partnership income. However, Partnership distributions will be limited as provided in the Partnership's Cash Distribution Policy.

Intangible Drilling Deductions.

If the Partnership drills one or more wells, you may be allocated a share of the Partnership's deductions for Intangible Drilling Costs, if the Partnership pays any portion of the Intangible Drilling Costs. However, when applicable, the calculation of alternative minimum taxable income cannot be reduced by more than forty percent (40%) by the deduction for Intangible Drilling Costs. Moreover, as discussed below, there will be limitations on your use of such deductions, primarily since you will be investing as a Limited Partner. Additionally, such deductions will not be available for 2025 unless drilling is commenced by March 31, 2026, and will not be available for 2026 unless drilling is commenced by March 31, 2027. If drilling is not commenced by such date, the Intangible Drilling Cost deduction will be deferred until the following year.

The Partnership is Subject to Entity Level Audits, Which Could Result in a Partner Bearing the Economic Burden of Any Audits, and in Certain Instances, Audit Liabilities of a Former Partner.

The IRS may audit the Partnership's annual federal information income tax return and, if it does, may challenge the amount of the Partnership's deductions and the taxable year in which the deductions were claimed. If the Partnership is audited, the IRS may also audit your personal federal income tax returns, including prior years' returns and items that are unrelated to the Partnership.

The Partnership is subject to entity level audits, and any increase in tax arising from such audits are tax obligations of the Partnership, unless the Partnership appropriately elects to push the tax liability out to persons that were partners in the taxable year to which the audit adjustment relates. If the Partnership does not push out the additional tax liability resulting from an audit, the Partnership will bear the economic burden of the tax liability, and as a result, each partner that holds an interest in the Partnership as of the time such liability is established will bear a portion of that liability. The Managing General Partner will determine in its reasonable discretion the best course of action for the Partnership to follow as a result of a tax audit and will take into consideration the interests of both the Partnership and the current and former partners. In the event that the Managing General Partner elects to push out a tax audit adjustment to the relevant partners, such adjustment will be accompanied with an interest and penalty surcharge, all of which will be payable directly by all affected partners (which in certain instances may be former partners) to the taxing authority without a corresponding cash distribution from the Partnership to fund such liability. Prospective investors are strongly urged to consult with their independent tax advisors as to the impact an audit may have on them.

A Current Year Deduction for Depreciation of Tangible Equipment Requires the Equipment to be Placed in Service by December 31, 2025.

The Tax Cuts and Jobs Act allows accelerated depreciation of equipment in certain circumstances, essentially providing an increased depreciation deduction for the cost of equipment which constitutes “qualified property” in the year it is placed in service. “Qualified property” generally includes tangible personal property such as equipment with a recovery period of 20 years or less. The increased depreciation deduction is forty percent (40%) for property placed in service in 2025 and twenty percent (20%) for property placed in service in 2026. If a well in which the Partnership has an interest is drilled, completed, equipped, and placed in service in 2025 there will be a 2025 deduction for forty percent (40%) of the cost of the tangible equipment involved. For wells in which the Partnership has an interest, where tangible equipment is placed into service in 2026, the deduction for twenty percent (20%) of the cost of such tangible equipment will be available to investors in that year subject to any limitations specific to such investors including but not limited to: basis limitations, “passive loss” limitations, AMT limitations, and “at risk” limitations. Note that the passive loss rules described above for Limited Partners would also apply to these deductions.

Limited Partners Need Passive Income to Use Their Deduction for Intangible Drilling Costs.

If you are a non-corporate investor in the Partnership as a Limited Partner, your share, if any, of the Partnership’s deduction for Intangible Drilling Costs will be a passive loss that cannot be used to offset non-passive income. Thus, you may not have sufficient passive income from the Partnership, or net passive income from your other passive activities if any, in the relevant tax years to offset a portion or all of your passive deduction for Intangible Drilling Costs in such year. However, any unused passive loss from Intangible Drilling Costs generally may be carried forward indefinitely to offset your passive income in subsequent years.

Lack of Filing as a Reportable Transaction (Tax Shelter).

The Managing General Partner believes that the Partnership is not a reportable transaction required to be disclosed to the IRS. If it is subsequently determined by the IRS or the courts that the Partnership was required to be disclosed to the IRS as a reportable transaction, you could be liable for a penalty of up to thirty percent (30%) of your income tax savings as a result of your participation in the Partnership.

ERISA Considerations.

In order to avoid the Partnership from being treated as holding “plan assets” (within the meaning of the Plan Assets Rules) subject to ERISA, Benefit Plan Investors will only be permitted to invest in the Partnership if such investment does not result in Benefit Plan Investors owning twenty-five percent (25%) or more of the interests in the Partnership.

The Managing General Partner will use commercially reasonable efforts to prevent the assets of the Partnership from being considered “plan assets” (within the meaning of the Plan Assets Rules) subject to ERISA by limiting the direct and indirect investment in the Partnership by Benefit Plan Investors to a level that would not be considered “significant” (as defined in the Plan Assets Rules).

For a fuller discussion of ERISA and its potential impact on the Partnership and the Limited Partners (See Section XVIII (ERISA Considerations)).

III. ADDITIONAL INFORMATION

The following is a list of documents relating to the Offering and the Partnership which, subject to confidentiality obligations, will be made available to you if you request them in writing from the Managing General Partner:

- opinion of counsel as to certain matters relating to the legality of the issuance of the Units;
- articles of incorporation and bylaws of the Managing General Partner;
- Dealer-Manager Agreement;
- Escrow Agreement; and
- insurance policies.

Statements in this Memorandum concerning the contents of any document referenced herein are summaries of relevant portions of such documents and are qualified in their entirety by the documents, which are summarized; you are urged to read each such document for a complete description of its terms. Also, to the extent you and your purchaser representative, if any, deem it necessary to verify the accuracy of the information referred to in this Memorandum, then you are invited to, subject to confidentiality obligations and the Managing General Partner's discretion:

- ask questions of, and receive answers from, the Managing General Partner; and
- obtain information concerning the terms and conditions of the Offering, to the extent the Managing General Partner possesses the information or can acquire it with reasonable effort or expense.

IV. FORWARD LOOKING STATEMENTS AND ASSOCIATED RISKS

Statements, other than statements of historical facts, included in this Memorandum and its exhibits address activities, events or developments that the Managing General Partner and the Partnership anticipate will or may occur in the future. These forward-looking statements include such things as:

- investment objectives;
- business strategy;
- estimated future Tangible Costs;
- competitive strengths and goals;
- references to future success; and
- other similar matters.

These statements are based on certain assumptions and analyses made by the Partnership and the Managing General Partner in light of their experience and their perception of historical trends, current conditions, and expected future developments. Certain market data and forecasts used in this Memorandum were obtained from independent industry sources as well as from research reports prepared for other purposes. Neither the Managing General Partner nor the Partnership has independently verified the data obtained from these sources, and neither of them can give any assurance as to the accuracy or completeness of the data. All forward-looking statements and the underlying assumptions and expectations involve known and unknown risks, uncertainties, and other factors which may cause the actual transactions, results, performance or achievements to be materially different from any future transactions, results, performance or achievements expressed, or implied by such forward-looking statements. There is no assurance that the Partnership's targeted results, assumptions, and expectations will be met. The actual results and performance of the Partnership may vary and are subject to a number of risks and uncertainties, many of which are beyond the control of the Managing General Partner, including:

- general economic, market, or business conditions;
- changes in laws or regulations;
- increases in operating and/or transportation costs;
- the risk that the wells or other assets are productive but do not produce enough revenue to return the investment made;
- the risk that the wells are dry holes;
- uncertainties concerning the price of oil, natural gas, and energy; and
- other risks.

Thus, all of the forward-looking statements made in this Memorandum, including its exhibits, are qualified by these statements. Although the Managing General Partner and the Partnership believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, they cannot assure potential investors that their expectations will be attained or that any deviations will not be material. The Partnership undertakes no obligation to release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

V. INVESTMENT OBJECTIVES

The Partnership's principal investment objectives are to invest net Subscription Proceeds in energy-related assets, including oil and natural gas wells, Alternative Energy Projects, and related assets which are intended to generate cash flow and targeted returns. Important considerations include:

- **Acquisitions.** The Partnership intends to begin making acquisitions of energy-related assets after Subscriptions for the minimum number of Units have been received and accepted. These assets may include producing wells, leasehold/royalty interests, pipelines, saltwater disposal wells, interests in new wells to be drilled, net profit interests, wells that need to be reworked, and assets constituting or related to Alternative Energy Projects.
- **Cash Flow.** The Managing General Partner intends to create cash flow for the Partnership from returns on the Partnership's investments, including from the sale of oil, gas, or produced energy, from Lease transactions, from fees or revenues generated for the use of assets and infrastructure it acquires, and from the sale of assets and infrastructure it acquires.
- **Cash Distributions.** The Partnership intends to provide quarterly cash distributions, in accordance with the Partnership's Cash Distribution Policy, to current Investors beginning after the closing of the first acquisition by the Partnership. Distributions will continue during the term of the Partnership until the wells, leases, and assets are depleted or sold. Partnership Net Production Revenues, if any, that exceed the amounts to be distributed pursuant to the Partnership's Cash Distribution Policy may, in the discretion of the Managing General Partner, be used to acquire additional assets for the Partnership.
- **Divestitures and Reinvestment.** It is anticipated that the nature of several types of investments that the Partnership will consider will be amenable to relatively short-term ownership and divestiture. In each such case, the Managing General Partner, in its sole discretion, shall determine if the proceeds from the sale of any asset shall be reinvested in the acquisition of, or investment in, additional assets, or distributed to the Limited Partners (either pursuant to the Cash Distribution Policy or as a special distribution), or both. No sales commissions, fees, or other amounts will be paid to the Managing General Partner on such amounts that are reinvested.
- **Liquidity.** Liquidity for the repurchase of Units is potentially available from the Managing General Partner or the Partnership commencing two years after seventy-five percent (75%) of the funds are invested through the presentment feature (see Section 6.04 of the Amended and Restated Agreement of Limited Partnership attached as Exhibit A).

Attainment of the Partnership's investment objectives will depend on many factors, including the ability of the Managing General Partner to select suitable assets which will be productive and produce enough revenue to return the investment made. The success of the Partnership depends largely on future economic conditions, especially the future price of produced energy, and especially, oil and natural gas which is volatile and may decrease. There can be no guarantee that the foregoing objectives will be attained.

VI. CAPITALIZATION AND SOURCE OF FUNDS AND USE OF PROCEEDS

Source of Funds.

On completion of the Offering, the Capital Contributions in the aggregate will range from \$500,000 (5 Units) to \$100,000,000 (1,000 Units) and up to \$150,000,000 (1,500 Units), as such target amount may be increased by the Managing General Partner in its discretion. Units purchased through the DRIP shall not be included in the limitations set forth in the preceding sentence; such DRIP Units shall not bear the Dealer-Manager Fee, Sales Commission, Due Diligence Fee, Marketing Expense Fee, or the three-tenths of one percent (0.3%) payment to the Managing General Partner for its efforts in organizing the Partnership and the Offering.

Use of Proceeds.

Up to eight and three-tenths percent (8.3%) of the Subscription Proceeds received from you and the other Investors will be applied to the payment of a one and one-half percent (1.5%) Dealer-Manager Fee, Sales Commission of up to five and one-half percent (5.5%), Due Diligence Fee of one-half percent (0.5%), Marketing Expense Fee of one-half percent (0.5%), and three-tenths of one percent (0.3%) to the Managing General Partner for organizing the Partnership and the Offering. All other Organization and Offering Costs, once determined, will be charged to, and paid by, the Partnership up to a maximum of one and one-half percent (1.5%) of the Subscription Proceeds if less than \$50,000,000 is raised or a maximum of one percent (1%) of the Subscription Proceeds if \$50,000,000 or more is raised (See Section XXV (Plan of Distribution)). Organization and Offering Costs include legal, printing, accounting, postage, and similar expenses (including for third-party opinions) relating to the Offering.

At least ninety-one and seven-tenths percent (91.7%) of the Subscription Proceeds received from you and the other Investors will be utilized for Partnership expenditures, primarily the acquisition of energy-related assets, which may include expenditures to acquire Working Interests in wells being drilled, to acquire existing oil and gas wells, oil and gas Leases or Lease interests, or related assets, such as pipelines or saltwater disposal wells, or to acquire assets constituting or related to Alternative Energy Projects. For acquisitions, this will include payment of the purchase price, reimbursing U.S. Energy for its services involved in the acquisition according to an hourly rate schedule, paying for third party services and fees (attorneys, investment banks, independent geologists, and engineers, for example) and disbursements (for example, recording costs).

The Partnership may begin acquiring energy assets, and making distributions to Investors, at any time after the minimum number of Subscriptions are received and accepted but will not make acquisitions where the purchase price and associated costs exceed ninety-one and seven-tenths percent (91.7%) of the Subscription Proceeds received plus net proceeds from any permissible borrowing as described below.

Subsequent Source of Funds and Borrowings.

If the Partnership requires additional funds for acquisitions or to rework some of the wells or for remedial work for wells or other assets after acquisition, then these funds may be provided by:

- Partnership revenues;

- borrowings from third parties; or
- borrowings from the Managing General Partner or its Affiliates, although the Managing General Partner is not contractually committed to loan money to the Partnership.

The aggregate amount that may be borrowed and outstanding by the Partnership, exclusive of any seller financing, at any one time, may not exceed fifty percent (50%) of the greater of (i) Subscription Proceeds and (ii) the value of its aggregate reserves, as determined by an unaffiliated third party lender, in each case, calculated at the time such indebtedness is incurred, and must be without recourse to you and the other Investors. The Partnership's repayment of any borrowings would be from Partnership revenues and could reduce or delay your cash distributions.

The Managing General Partner will not be paid a fee for arranging a loan from a third party. However, all loan related costs will be paid by the Partnership. If the Managing General Partner loans money to the Partnership, then:

- the interest charged to the Partnership must not exceed the Managing General Partner's interest cost or the interest that would be charged to the Partnership without reference to the Managing General Partner's financial abilities or guarantees to unrelated lenders, on comparable loans for the same purpose, as reasonably determined by the Managing General Partner; and
- the Managing General Partner may not receive points or other financing charges or fees although the actual amount of the charges incurred from third-party lenders may be reimbursed to the Managing General Partner.

VII. INVESTOR CAPITAL

ENTITY RECEIVING PAYMENT	<u>NATURE OF PAYMENT</u>	<u>5 UNITS SOLD</u>	<u>%¹</u>	<u>1,000 UNITS SOLD</u>	<u>%¹</u>
Organization and Offering Costs:					
Broker-Dealers and Various Related Persons	Dealer-Manager Fee, Sales Commission, Due Diligence Fee, Marketing Expense Fee and organizational and offering activities fee	\$41,500	8.3%	\$8,300,000	8.3%
Amount Available for Investment:					
Managing General Partner	Energy Investment Amounts	\$458,500	91.7%	\$91,700,000	91.7%
Total Investor Capital:		<u>\$500,000</u>	<u>100%</u>	<u>\$100,000,000</u>	<u>100%</u>

¹Denotes percentage amount that the items represent to the total Capital Contribution of the Participants. The amounts in the table above are for illustrative purposes only and the actual Offering amounts and specific expenditures are subject to change at the sole discretion of the Managing General Partner.

VIII. COMPENSATION

The items of compensation paid to the Managing General Partner and its Affiliates from the Partnership are set forth below.

Asset Acquisition Expenses.

The Managing General Partner will not receive a fee with respect to the acquisition of assets by the Partnership. However, the Managing General Partner will be reimbursed, at cost, for any third-party expenses incurred with respect to acquisitions or potential acquisitions and reimbursed, at its standard hourly rates, for the efforts of its employees involved in acquisitions or potential acquisitions for the Partnership.

Lease Costs.

The Partnership may acquire from the Managing General Partner, or the Managing General Partner may acquire on behalf of the Partnership, the necessary interests in undeveloped oil and gas Leases for the Partnership Wells to be drilled. Such leasehold interests will be acquired for fair market value as determined by the Managing General Partner in its reasonable discretion without independent evaluation or arms-length negotiation. Factors which may be considered in determining fair market value include:

- the price involved in the sale of comparable leasehold interests in the same geographic area;
- geological, geophysical, petrophysical, seismic, and engineering expenses relating to the leasehold acreage;
- Lease acquisition expenses, including costs of acquiring such asset from a third party;
- rentals and ad valorem taxes paid to maintain the Lease;
- interest expenses;
- Administrative Costs and overhead expenses;
- legal expenses, including expenses related to title examination; and
- expenses and costs related to the leasehold interests or any other related asset, including any costs incurred in connection with the acquisition of the leasehold, determined using industry standards, as applicable.

This creates a potential conflict of interest because the Managing General Partner will determine the fair market value of the leasehold interests the Partnership will acquire from the Managing General Partner. However, the Managing General Partner will endeavor to use one or more of the sources of information above and will exercise commercially reasonable discretion in determining the fair market value of such Leases, including without limitation, by either using independent third-party analysis, or actual costs of acquisition incurred by the Managing General Partner.

In addition, the development of wells on the acreage may provide the Managing General Partner with offset Drill Sites by allowing it to ascertain at the Partnership's expense the value of adjacent acreage in which the Partnership may not have any interest.

The amount charged to the Partnership for leasehold acquisition expenses for a well will be based, in part, on the number of acres associated with that well at the time operations for drilling are commenced. It is possible, under certain circumstances, that a portion of the acreage initially associated with a well may subsequently be sold or used to support a subsequently drilled well. If, within the 24 months following the spudding of a Partnership Well, a portion of the acreage associated with that well is sold or used to support a subsequently drilled well not owned by the Partnership, the Managing General Partner will provide a credit to the Partnership to be applied against ongoing operating expenses. The amount of the credit, which shall be determined on a per acre (or portion thereof) basis, shall be equal to eighty percent (80%) of the amount paid to unrelated third parties to acquire the leasehold interest.

Asset Operating Expenses.

The Managing General Partner will not receive a fee with respect to the operation of energy-related assets, other than wells which are addressed below, acquired by the Partnership. However, the Managing General Partner will be reimbursed, at cost, for any third-party expenses incurred with respect to the operation, ownership, or sale of the Partnership's assets and reimbursed, at its standard hourly rates, for the efforts of its employees involved in the operation, sale, or activities related to the ownership of the Partnership's assets.

Per Well Charges.

If the Partnership acquires or drills any wells, the Partnership will incur monthly fees for their operations. If the wells are located in a geographic area where the Managing General Partner is acting as the operator of other wells, the Managing General Partner may operate those wells, at the prevailing industry rate for such geographic area which is fair and reasonable to the Partnership, as reasonably determined by the Managing General Partner, pursuant to the Operating Agreement.

For any wells which it operates under the Operating Agreement, the Managing General Partner will receive the following from the Partnership:

- reimbursement at actual cost for all direct expenses incurred on behalf of the Partnership; and
- fees for operating and maintaining the wells during producing operations at a competitive rate for the geographic area where the wells are located which is fair and reasonable to the Partnership, as reasonably determined by the Managing General Partner.

The above fees will be proportionately reduced if the Partnership acquires less than a one hundred percent (100%) Working Interest and the Managing General Partner will not receive any well operating fees for wells it does not operate.

The operating fees cover all normal and regularly recurring operating expenses for the production, delivery, and sale of oil and natural gas, such as:

- well tending, routine maintenance, and adjustment;
- reading meters, recording production, pumping, and maintaining appropriate books and records;
- preparing reports to the Partnership and to government agencies; and
- collecting and disbursing revenues.

The operating fees do not include such things as:

- non-routine maintenance costs;
- water hauling;
- compression;
- natural gas treatment;
- rebuilding of roads; and
- third-party charges for services.

These costs will be charged to the Partnership at the invoice cost of the materials purchased or the third-party services performed. If the services are performed by the Managing General Partner, they will be charged at hourly rates that are competitive in the geographic area of operations which are fair and reasonable to the Partnership, as reasonably determined by the Managing General Partner.

Drilling.

If the Partnership drills any wells, the Managing General Partner will be compensated for the services it provides in such activities. For services performed by, and for materials and equipment supplied by third parties, the Managing General Partner, as Operator, will be reimbursed at cost.

The per well charges and charges relating to the drilling of wells described above are separate from, and, if incurred, will be in addition to the Management Fee described below.

Gathering and Midstream Fees.

The Managing General Partner or an Affiliate, which may be another partnership sponsored by the Managing General Partner, may pay all or a portion of the cost of installing gathering and/or transmission lines and developing a gathering system and/or pipeline system for the oil or natural gas production from the Partnership Wells. In such instances, the Managing General Partner or its Affiliates will own these gathering and pipeline lines and systems but will provide their use to the Partnership for the life of the Partnership and will charge a commercially reasonable gathering, transportation, and/or marketing fee, as determined by the Managing General Partner, for the use of the gathering and/or pipeline system. If treating, compression, or other associated fees are required on the Managing General Partner's or its Affiliate's gathering and/or pipeline system, the

Managing General Partner or its Affiliate will install the same and charge the Partnership a compression, treating, or other associated fee. Also, if other companies' existing pipeline and/or compression and treating facilities are used by the Partnership, then the Partnership may pay a treating, transportation, gathering, and marketing fee plus compression fee if utilized.

These fees will be proportionately reduced to the extent the Partnership acquires less than one hundred percent (100%) of the interest in the wells.

Overriding Royalty Interests.

Overriding Royalty Interest owners have the right to receive a percentage of the revenues from production from a well without having to contribute to the cost of operating the well. There may be existing Overriding Royalty Interests associated with the wells or Leases that the Partnership acquires, including Overriding Royalty Interests held by the Managing General Partner. Any acquisition will be subject to existing Overriding Royalty Interests. The terms of an acquisition may also involve the reservation of an Overriding Royalty Interest by the seller. However, no new Overriding Royalty Interests will be created solely as a result of this Offering except Overriding Royalty Interests that may be retained by the Partnership when it sells any oil and gas Leases, or portions thereof, that it acquires.

It is also possible that the Partnership will purchase overriding royalty, or other participatory, interests as an investment.

Management Fee.

The Partnership will pay a Management Fee to the Managing General Partner which will begin to accrue on the date that the first Limited Partner not Affiliated with the Managing General Partner is admitted to the Partnership. The Management Fee shall be calculated and paid quarterly and shall be one-half percent (0.5%) (which is an annual rate of two percent (2%)) of the total paid to the Partnership for Units (i.e., the gross Subscription Proceeds) plus the net amount of any borrowings by the Partnership for Partnership purposes.

Share of Profits/Carried Interest.

The Managing General Partner will receive the Carried Interest in the form of a share of the returns on investments by the Partnership equal to twenty-five percent (25%) after Investors have received a return of their Capital Contribution and if certain specified returns for the Investors are achieved, as more fully described in Section XII (Proposed Activities - Managing General Partner's Interest; Carried Interest).

Dealer-Manager and Sales Fees.

Westmoreland Capital, an Affiliate of the Managing General Partner which serves as the Dealer-Manager, subject to the limits set forth in Section XXV (Plan of Distribution), may receive on each Unit sold to an Investor: a dealer-manager fee of one and one-half percent (1.5%) ("**Dealer-Manager Fee**"), a Sales Commission of up to five and one-half percent (5.5%), a due diligence fee of one-half percent (0.5%) ("**Due Diligence Fee**"), and a marketing expense fee of one-half percent (0.5%) ("**Marketing Expense Fee**"). Such fees and commission will not be paid on Units

purchased through the DRIP. Thus, the Dealer-Manager may receive aggregate fees of up to eight percent (8%), as follows, up to:

- \$40,000 if \$500,000 is received;
- \$8,000,000 if \$100,000,000 is received; and
- \$12,000,000 if \$150,000,000 is received.

All or a portion of the Dealer-Manager Fee, Sales Commission, Due Diligence Fee, and Marketing Expense Fee may be reallocated by the Dealer-Manager Fee to its Selling Agents.

Payment of Organizational Expenses.

The Managing General Partner will receive three-tenths of one percent (0.3%) of the amount raised to compensate it for its efforts in organizing the Partnership and the Offering; however, such amounts are not payable on Units sold through the DRIP. Organization and Offering Costs include, but are not limited to: legal services and disbursements, printing, professional accounting services, postage, and third-party evaluation services. Once known, these expenses, excluding the Dealer-Manager Fee, Sales Commission, Due Diligence Fee, Marketing Expense Fee and the three-tenths of one percent (0.3%) compensation payable to the Managing General Partner for its efforts in organizing the Partnership and the Offering, will be billed to and paid by the Partnership up to a maximum of one and one-half percent (1.5%) of the Subscription Proceeds if less than \$50,000,000 is raised or a maximum of one percent (1.0%) of the Subscription Proceeds if \$50,000,000 or more is raised. Also, the Managing General Partner, and/or the Dealer-Manager Fee, may recoup due diligence fees and disbursements charged to them by a broker-dealer from the Due Diligence Fee that is re-allowed to that broker-dealer and/or marketing expense fees and disbursements charged to them by a broker-dealer from the Marketing Expense Fee that is re-allowed to that broker-dealer.

Interest and Other Compensation.

The Managing General Partner or an Affiliate will have the right to charge a competitive rate of interest and fees, as reasonably determined by the Managing General Partner, on any loan it may make to or on behalf of the Partnership; provided (i) the interest charged to the Partnership must not exceed the Managing General Partner's interest cost or the interest that would be charged to the Partnership without reference to the Managing General Partner's financial abilities or guarantees to unrelated lenders, on comparable loans for the same purpose and (ii) the Managing General Partner may not receive points or other financing charges or fees although the actual amount of the charges incurred from third-party lenders may be reimbursed to the Managing General Partner. If the Managing General Partner or any of its Affiliates provide equipment, supplies, and other services to the Partnership, then it may do so at rates the Managing General Partner believes is fair and reasonable to the Partnership.

Administrative Costs and Direct Costs to be Borne by the Partnership.

Direct Costs incurred on behalf of the Partnership will be billed directly to and be paid by the Partnership to the extent practicable. Direct Costs include amounts incurred to develop, evaluate, and acquire assets for the Partnership. If such services are provided by the Managing General Partner, they will be charged at rates comparable to those charged for similar services in the same geographic areas, as reasonably determined by the Managing General Partner. Anticipated Direct Costs may vary for numerous reasons which cannot accurately be predicted.

Direct Costs may also include the charges of a Third-Party Administrator if one is engaged to provide administrative services for the Partnership. If a Third-Party Administrator is engaged it may, but is not required to, be an Affiliate of the Managing General Partner.

Factors which may affect the amount of Direct Costs that will be incurred by the Partnership include, but are not limited to:

- the number of Investors;
- the number of wells or other assets acquired;
- the types of assets acquired by the Partnership;
- the Partnership's degree of success in its activities;
- the volatility of oil and natural gas prices and/or other energy and commodity prices;
- the extent of any production problems;
- inflation; and
- various other factors involving the administration of the Partnership.

If an administrative or direct cost benefits others, including other entities or individuals, in addition to the Partnership, the Partnership shall pay a proportionate share of such cost as reasonably determined by the Managing General Partner.

IX. TERMS OF THE OFFERING

Subscription to the Partnership.

The Partnership will offer a minimum of 5 Units. The maximum number of Units for the Partnership will be 1,000 (which doesn't include the expansion allotment or Units purchased through the DRIP). The maximum number of Investors will be 1,999.

Units in the Partnership are offered to a limited number of select persons (See Section IX (Terms of the Offering - Suitability Standards)) at a Subscription price of \$100,000 per Unit, and must be paid one hundred percent (100%) in cash at the time of subscribing. Your minimum Subscription is one Unit, however, partial Units may be accepted in the Managing General Partner's sole discretion. Larger Subscriptions will be accepted in \$1,000 increments.

Participants will be a Partner or LLC Member only in the Partnership or LLC in which they invest.

The Managing General Partner will have exclusive management authority for the Partnership and the LLC.

Partnership Closings and Escrow.

The Offering period for the Partnership will begin at the discretion of the Managing General Partner on or about the date of this Memorandum and will end on or before March 31, 2026, unless the Closing Date is amended by the Managing General Partner in its sole discretion by one or more extensions but to no later than September 30, 2026.

No Subscriptions to the Partnership will be accepted after the first to occur of:

- the receipt of the maximum Subscriptions of 1,000 Units, which may be increased to 1,500 Units, in the Managing General Partner's sole discretion;
- the receipt of Subscriptions from 1,999 Investors; and
- the close of the Offering by the Managing General Partner;
- however, in the discretion of the Managing General Partner, Units in the Partnership may be purchased after the close of the Offering through the DRIP.

If Subscriptions for \$500,000 are not received by the Closing Date, then the sums ultimately deposited in the Escrow Account will be promptly returned to you and the other subscribers from the Escrow Account, and without deduction for any fees. Although they do not currently anticipate doing so, the Managing General Partner and its Affiliates have reserved the right to buy Units which may be applied to satisfy the \$500,000 minimum, without the Managing General Partner paying the Dealer-Manager Fee, Sales Commission, Due Diligence Fee, and Marketing Expense Fee.

Subscription Proceeds for the Partnership will ultimately be held in the Escrow Account at Washington Federal, National Association until the Initial Closing Date. The Partnership may, in

the Managing General Partner's sole discretion, begin all activities, including drilling, on or after the Initial Closing Date.

During the Partnership's escrow period, Subscription Proceeds may be invested only in bank deposit accounts, including accounts secured by securities of the United States government. After the funds are transferred to the Managing General Partner and before their use in Partnership operations, they may be temporarily invested in income producing short-term, highly liquid investments, in which there is appropriate safety of principal, as reasonably determined by the Managing General Partner, such as U.S. Treasury Bills. If the Managing General Partner determines that the Partnership may be deemed an investment company under the Investment Company Act of 1940, then the investment activity will cease.

Acceptance of Subscriptions.

Your execution of the Subscription Agreement constitutes your offer to buy Units in the Partnership or LLC, as applicable and to hold the offer open until either:

- your Subscription is accepted or rejected, in whole or in part, by the Managing General Partner; or
- you withdraw your offer.

To withdraw your offer, you must give written notice to the Managing General Partner before your offer is accepted, in whole or in part, by the Managing General Partner. Your Subscription will be accepted or rejected by the Partnership or LLC, as applicable, within 30 days of its receipt. The Managing General Partner's acceptance of your Subscription is discretionary, and the Managing General Partner may reject your Subscription, in whole or in part, for any reason without incurring any liability to you for this decision. If your Subscription is rejected, in whole or in part, then the proportion of your rejected funds will be promptly returned to you.

If your Subscription is accepted, in whole or in part, before the Initial Closing Date, you will be admitted to the Partnership or LLC, as applicable, not later than fifteen (15) days after the Initial Closing Date. If your Subscription is accepted, in whole or in part, after the Initial Closing Date, then you will be admitted to the Partnership or LLC, as applicable, not later than the last day of the calendar month in which your Subscription was accepted, in whole or in part, by the Managing General Partner.

Your execution of the Subscription Agreement and the Managing General Partner's acceptance also constitutes your:

- execution of the Partnership Agreement and/or LLC Operating Agreement, as applicable, and your agreement to be bound by its terms as a partner or member; and
- your grant of a special power of attorney to the Managing General Partner to file amended certificates of limited partnership, governmental reports and certifications, and other matters.

Suitability Standards

General Standards and Definition of Accredited Investor.

It is the obligation of any Person proposing to sell the Units to you to make every reasonable effort to ensure that the Units are suitable for you based on your investment objectives and financial situation, regardless of your income or net worth. You, however, should invest in the Partnership through a purchase of Units only if you are willing to assume the risks of a speculative, illiquid, and long-term investment.

The decision to accept or reject your Subscription, in whole or in part, will be made by the Managing General Partner, in its sole discretion, and is final. The Managing General Partner will not accept your Subscription until it has reviewed your apparent qualifications and the suitability record for your Subscription must be maintained during the Partnership's term and for at least six years thereafter.

This Offering is being conducted as a private placement under Rule 506(c) of Regulation D. Regulation D sets forth restrictions on the persons from whom Subscriptions of Units may be accepted in this type of Offering and the manner in which the Offering may be conducted. The Offering is made to "Accredited Investors" only, as that term is defined and used in Rule 501(a) of Regulation D. As of the date of this Memorandum, an Accredited Investor includes the categories summarized below for your convenience, but which it is your sole responsibility to verify independently for accuracy, completeness, and applicability to your unique circumstances: "any person who comes within any of the following categories, or who the issuer reasonably believes comes within any of the following categories, at the time of the sale of the securities to that person":

- any bank as defined in section 3(a)(2) of the Securities Act of 1933, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Securities Act of 1933 whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; any investment adviser registered pursuant to section 203 of the Investment Advisers Act of 1940 or registered pursuant to the laws of a state; any investment adviser relying on the exemption from registering with the SEC under section 203(l) or (m) of the Investment Advisers Act of 1940; any insurance company as defined in section 2(a)(13) of the Investment Company Act of 1940; any investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that act; any small business investment company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; any Rural Business Investment Company as defined in section 384A of the Consolidated Farm and Rural Development Act; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are Accredited Investors;

- any private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940;
- any organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “**Code**”), corporation, Massachusetts or similar business trust, partnership, or limited liability company, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000;
- any natural person who is a director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;
- any natural person whose individual net worth (or joint net worth with spouse or spousal equivalent) exceeds \$1,000,000;¹
- any natural person who had an individual income² in excess of \$200,000 in each of the two most recent years or joint income with that persons’ spouse or spousal equivalent³ in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- any trust, with total assets in excess of \$5,000,000, not-formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) under the Securities Act of 1933;
- any entity, including a grantor trust, in which all of the equity owners are “Accredited Investors”, (for this purpose, a beneficiary of a trust is not an equity owner, but the grantor of a grantor trust is an equity owner);
- any natural person holding one or more of the following certifications in good standing, (a) licensed General Securities Representative (Series 7), (b) licensed Investment Adviser Representative (Series 65), or (c) licensed Private Securities Offerings Representative (Series 82);

¹For purposes of this item, “net worth” means the excess of total assets at fair market value, including automobiles and other personal property but excluding the value of the primary residence of such natural person (and including property owned by a spouse other than the primary residence of the spouse), over total liabilities. (For this purpose, the amount of any mortgage or other indebtedness secured by an investor’s primary residence should not be included as a “liability,” except to the extent (i) the fair market value of the residence is less than the amount of such mortgage or other indebtedness, or (ii) such indebtedness existing on the date of the acceptance of the investor’s Subscription for Units exceeds the indebtedness that existed sixty (60) days preceding such date and such indebtedness was not as a result of the acquisition of the investor’s primary residence).

²For purposes of this item, “individual income” means adjusted gross income as reported for U.S. federal income tax purposes, less any income attributable to a spouse or to property owned by a spouse, increased by the following amounts (but not including, in any of the following cases, any amounts attributable to a spouse or to property owned by a spouse) (i) the amount of any interest income received which is tax-exempt under §103 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), (ii) the amount of losses claimed as a limited partner in a limited partnership (as reported on Schedule E of Form 1040), (iii) any deduction claimed for depletion under Code §611 *et seq.*, and (iv) any amount by which income from long-term capital gains has been reduced in arriving at adjusted gross income pursuant to the provisions of Code §1202 prior to its repeal by the Tax Reform Act of 1986.

³ A “spousal equivalent” means a cohabitant occupying a relationship generally equivalent to that of a spouse.

- a “knowledgeable employee” of a private fund, as defined in Rule 3c-5(a)(4) under the Investment Company Act of 1940, qualifies as an Accredited Investor for the purpose of investing in that fund; and
- family officers and family clients, as those terms are defined in Rule 202(a)(ii)(G)-1 under the Investment Advisers Act of 1940, meeting the conditions of new Rules 501(a)(12) and (a)(13) respectively.

Fiduciary Accounts and Execution of Subscription Documents.

If there is a sale of a Unit to a fiduciary account, then all the suitability standards set forth above must be met by:

- the beneficiary;
- the fiduciary account; or
- the donor or grantor who directly or indirectly supplies the funds to purchase the Units if the donor or grantor is the fiduciary.

Generally, you are required to execute your own Subscription Agreement, and the Managing General Partner will not accept any Subscription Agreement that has been executed by someone other than you. The only exception is if you have given someone else the legal power of attorney, a copy of which must be provided to the Managing General Partner, to sign on your behalf and you meet all of the conditions in this Memorandum.

X. PRIOR ACTIVITIES

The tables set forth below reflect certain historical data with respect to prior activities of private placement partnerships which the Managing General Partner has sponsored since 1999 and which have raised a total of over \$3 billion through December 31, 2024. The tables do not include information concerning acquisitions of existing oil and gas wells by the Managing General Partner for its own account.

The Partnership's two predecessor partnership, which were sponsored by the Managing General Partner, have raised over \$50 million through December 31, 2024. Information regarding such partnerships is shown in Table 2.

Any performance or track records presented herein and elsewhere in any other Offering material should be used only to assess the Partnership's and the Managing General Partner's experience generally in making investments consistent with the Partnership strategy and should not necessarily be used to assess the Partnership's or the Managing General Partner's ability to successfully implement any prior investment strategy of the Managing General Partner or any of its Affiliates in the future.

TABLE 1

EXPERIENCE IN RAISING FUNDS

AS OF 12/31/2024

PROGRAM	NUMBER OF TOTAL PARTNERS	INVESTOR SUBSCRIPTIONS	ESTIMATED Manging General Partner INVESTMENT (\$)	TOTAL CAPITAL	DATE OF COMMENCEMENT OF OPERATIONS	DATE OF COMMENCEMENT OF PRODUCTION	DATE OF FIRST DISTRIBUTIONS
DERBY BROOK 1999	9	\$ 400,000	\$ 155,250	\$ 555,250	Feb-00	Mar-00	Aug-00
TRANSGAS 2000 - 1	12	\$ 427,500	\$ 173,625	\$ 601,125	Mar-01	Jun-01	Aug-01
DUBERSTEIN 2001	2	\$ 405,000	\$ 173,600	\$ 578,600	Oct-01	Dec-01	Apr-02
TRANSGAS 2001 - 1	3	\$ 288,166	\$ 61,834	\$ 350,000	Mar-02	Oct-02	May-03
SINTON JV - 2002	2	\$ 70,080	\$ 39,920	\$ 110,000	Jul-02	Oct-02	May-03
TRANSGAS 2002	10	\$ 611,000	\$ 258,657	\$ 869,657	Feb-03	Feb-03	Jun-03
PLATINUM ENERGY 2003	49	\$ 1,500,000	\$ 630,000	\$ 2,130,000	Jan-04	Feb-04	May-04
2004 PLATINUM ENERGY	145	\$ 3,859,250	\$ 1,620,885	\$ 5,480,135	Dec-04	Apr-05	Jun-05
2005 PLATINUM ENERGY	530	\$ 21,491,125	\$ 9,027,134	\$ 30,518,259	Oct-05	Mar-06	Apr-06
2006 PLATINUM ENERGY	1,040	\$ 38,993,000	\$ 16,377,060	\$ 55,370,060	Nov-06	Dec-06	Mar-07
2007 OMEGA DRILLING PROGRAM	835	\$ 32,605,213	\$ 17,525,302	\$ 50,130,515	Jun-07	Sep-07	Dec-07
2007 PLATINUM ENERGY	1,054	\$ 49,988,000	\$ 20,994,960	\$ 70,982,960	Dec-07	Mar-08	Aug-08
2008 OMEGA DRILLING PROGRAM	1,072	\$ 45,000,000	\$ 24,187,500	\$ 69,187,500	Jul-08	Apr-09	May-09
2008 PLATINUM ENERGY	1,111	\$ 50,041,000	\$ 21,017,220	\$ 71,058,220	Oct-08	Feb-09	Aug-09
2009 OMEGA DRILLING PROGRAM	1,153	\$ 52,821,000	\$ 15,846,300	\$ 68,667,300	Jan-10	Aug-10	Jan-11
2010 ALPHA DRILLING PARTNERS	1,212	\$ 74,131,000	\$ 22,239,300	\$ 96,370,300	Jan-11	Nov-10	Sep-11
2011 ALPHA DRILLING PARTNERS I	866	\$ 56,926,000	\$ 17,077,800	\$ 74,003,800	Dec-11	Feb-12	Aug-12
ALPHA DRILLING PARTNERS 2012	457	\$ 30,000,000	\$ 9,000,000	\$ 39,000,000	Aug-12	Nov-12	Jan-13
STRATEGIC ENERGY INCOME FUND	399	\$ 22,766,000	\$ -	\$ 22,766,000	Jul-10	Sep-10	Dec-10
STRATEGIC ENERGY INCOME FUND	251	\$ 13,739,000	\$ -	\$ 13,739,000	Nov-11	Jan-12	Mar-12
2012 GENESIS DRILLING PROGRAM	1,218	\$ 85,377,000	\$ 3,841,965	\$ 89,218,965	Dec-12	Jan-13	Jun-13
2013 GENESIS DRILLING PROGRAM	1,906	\$ 143,861,000	\$ 6,473,745	\$ 150,334,745	Oct-13	Nov-13	Jun-14
STRATEGIC ENERGY INCOME FUND	484	\$ 56,774,000	\$ -	\$ 56,774,000	May-13	May-13	Oct-13
2014 GENESIS DRILLING PROGRAM	2,316	\$ 179,929,000	\$ 7,197,160	\$ 187,126,160	Apr-14	Sep-14	Sep-15
2015 GENESIS DRILLING PROGRAM	955	\$ 83,495,000	\$ 3,339,800	\$ 86,834,800	Nov-15	Apr-16	Aug-16
STRATEGIC ENERGY INCOME FUND	849	\$ 63,649,000	\$ -	\$ 63,649,000	Mar-16	Mar-16	May-16
USED C 2016 DRILLING FUND	1,011	\$ 92,943,000	\$ 3,717,720	\$ 96,660,720	Feb-17	Mar-17	Sep-17
USED C 2017 DRILLING FUNDS	1,005	\$ 112,498,000	\$ 4,131,560	\$ 116,629,560	Jan-18	Aug-18	Oct-18
USED C 2018 DRILLING FUNDS	756	\$ 81,391,000	\$ 2,795,695	\$ 84,186,695	Nov-18	Aug-19	Oct-19
STRATEGIC ENERGY INCOME FUND	295	\$ 27,806,000	\$ -	\$ 27,806,000	Oct-18	Apr-19	Sep-19
USED C 2019 DRILLING FUNDS	468	\$ 71,276,000	\$ 3,259,294	\$ 74,535,294	Nov-19	Sep-20	Oct-20
USED C 2020 DRILLING FUND	415	\$ 62,309,000	\$ 1,330,380	\$ 63,639,380	Jan-21	Jul-21	Jun-21
U.S. ENERGY PRIVATE CAPITAL I	10	\$ 520,000	\$ 45,810	\$ 565,810	NA	NA	NA
USED C 2021 AUXILIARY FUND	121	\$ 31,431,360	\$ 577,493	\$ 32,008,853	Jan-22	Jan-22	Mar-22
USED C 2021 DRILLING FUND	771	\$ 112,196,000	\$ 2,061,393	\$ 114,257,393	Jan-22	Jan-22	Mar-22
INSTITUTIONAL ENERGY PARTNERS I	9	\$ 225,000	\$ -	\$ 225,000	Jan-22	Jan-22	Mar-22
INSTITUTIONAL ENERGY PARTNERS I	4	\$ 125,000	\$ -	\$ 125,000	Jan-22	Jan-22	Mar-22
USED C 2022 DRILLING FUND	1,559	\$ 238,489,550	\$ 4,077,417	\$ 242,566,967	Jan-23	Jan-23	Mar-23
USED C 2022 AUXILIARY FUND	112	\$ 30,291,500	\$ 517,889	\$ 30,809,389	Jan-23	Jan-23	Mar-23
INSTITUTIONAL ENERGY PARTNERS III	\$	\$ 1,480,000	\$ -	\$ 1,480,000	Jan-23	Jan-23	Mar-23
USED C 2023 DRILLING FUNDS	1,888	\$ 352,008,816	\$ 5,235,024	\$ 357,243,840	Jan-24	Jan-24	Mar-24
USED C 2023 AUXILIARY FUND	614	\$ 36,595,876	\$ 1,359,706	\$ 37,955,582	Jan-24	Jan-24	Mar-24
INSTITUTIONAL ENERGY PARTNERS I	17	\$ 1,530,000	\$ -	\$ 1,530,000	Jan-24	Jan-24	Mar-24
U.S. ENERGY PRIVATE CAPITAL II	254	\$ 55,102,668	\$ -	\$ 55,102,668	Jan-24	Jan-24	Mar-24
USED C 2024 DRILLING FUNDS	3,108	\$ 425,478,580	\$ 33,114,835	\$ 458,593,415	Jan-25	Jan-25	Mar-25
INSTITUTIONAL DRILLING FUND I	484	\$ 90,070,833	\$ 1,351,062	\$ 91,421,895	Jan-25	Jan-25	Mar-25
		\$ 2,932,915,517	\$ 260,834,296	\$ 3,193,749,813			

(1) The historical Manging General Partner Investment varies by offering and is estimated as the USED C ownership in the wells both in and alongside the partnerships. In earlier partnerships, the Managing General Partner paid the partnership's tangible expenses and received a higher percentage of partnership revenue. You should review the current offering memorandum for details specific to the current offering.

TABLE 2

U.S. ENERGY DEVELOPMENT CORPORATION - ACQUISITION TRACK RECORD										
AS OF 12/31/2024										
PROGRAM	TOTAL INVESTMENT CONTRIBUTING (1)	NET REVENUE	NET OPERATING EXPENSES	NET PAYOUT	INVESTOR SHARE	# MONTHS DISTRIBUTING (4)	CASH ON CASH RETURN (2)	CUMULATIVE TAX SAVINGS TO DATE (4)	CASH & TAX RETURN (3)	AVG. MONTHLY CASH & TAX RETURN (3)
U.S. ENERGY PRIVATE CAPITAL I LP (5)	\$ 520,000	\$ 861,189	\$ 185,189	\$ 676,000	\$ 676,000	1	130.0%	0.0%	130.0%	130.0%
U.S. ENERGY PRIVATE CAPITAL II LP	\$ 55,102,668	\$ 21,751,150	\$ 3,571,664	\$ 18,179,486	\$ 18,179,486	9	33.0%	44.7%	77.7%	8.6%
(1) Represents the portion of each investment that has contributed to distributions to date. Investment amount includes acquisition and sales & syndication costs in addition to any internal U.S. Energy overhead reimbursements.										
(2) Cash returns represented as a percent of the total capital raise from the date the first investor was admitted to the fund (both contributing and not yet contributing to distributions).										
(3) The tax rate includes the maximum federal rate and the maximum new york state rate. Depreciation was applied using an estimated five year recovery period (straight-line) for assets that were allocated to tangible and well equipment.										
(4) # of months distributing is the number of months between the date the first investor received a distribution and the "as of" date of this table.										
(5) U.S. Energy Private Capital I LP undertook a strategic position and sold all of its assets and made a liquidating distribution. Thus subsequently terminated the program.										

It should not be assumed that you and the other Investors will experience returns, if any, comparable to those experienced by investors in the prior Programs for several reasons, including, but not limited to:

- differences in partnership terms;
- differences in partnership objectives and purposes;
- differences in types of partnership assets;
- location of wells and other assets;
- partnership size; and
- economic considerations.

The results of the prior energy asset acquisition Programs should be viewed only as a measure of the level of activity and experience of the Managing General Partner with respect to energy asset acquisition Programs.

Since 1999, oil and natural gas prices have risen and fallen, significantly affecting the basis for returns to investors. A profitable return on investment in the Partnership is substantially dependent on the price of oil and natural gas. The Managing General Partner can offer no assurances concerning oil and gas price levels that the Partnership will experience.

XI. MANAGEMENT

Managing General Partner and Operator.

The Managing General Partner, U.S. Energy Development Corporation, a New York corporation, was founded in 1980 by Joseph M. Jayson, who passed away on June 27, 2014. Since its founding, the Managing General Partner has owned, as of December 31, 2024, interests in more than 3,400 oil or natural gas wells located in Texas, Louisiana, Ohio, New York, North Dakota, Kansas, Pennsylvania, Montana, Maryland, Colorado, Oklahoma, and the Province of Ontario, Canada. The Managing General Partner has acted as Operator with respect to the drilling of more than 2,390 wells from 1980 to December 31, 2024.

The Managing General Partner has a staff of approximately 90 people including individuals with expertise in engineering, geology/geophysics, drilling/completions, land, legal, accounting, production, and marketing.

The Managing General Partner's primary offices are located in Fort Worth, Texas.

The financial statements of the Managing General Partner are included in Section XXX (Financial Information Concerning the Managing General Partner.)

Key Officers and Directors.

The officers and directors of the Managing General Partner will serve until their successors are elected. Key officers and directors of the Managing General Partner are as follows:

<u>NAME</u>	<u>AGE</u>	<u>POSITION OR OFFICE</u>
Jordan M. Jayson	49	Chief Executive Officer and Chairman of the Board of Directors
Matthew P. Iak	48	Executive Vice President and Director
Robert J. Woody	81	Director
Christer S. Rundlof	48	Director
Josh Sherman	49	Director
Brandon Standifird	43	Chief Financial Officer

Jake Plunk	52	Senior Vice President of Acquisitions and Divestitures
Todd C. Witmer	49	Vice President of Corporate Development
Kevin Duncan	61	Vice President of Operations
Mike Williams	45	Vice President of Engineering
Michael D. Haven	50	Vice President of Capital Markets
Joshua Dazey	45	General Counsel

Jordan M. Jayson. *Chief Executive Officer and Chairman of the Board of Directors (the “Board”).* Mr. Jayson joined U.S. Energy in 2009. Since joining U.S. Energy, he has been involved in information technology, human relations, acquisitions, and divestitures. He previously served as Executive Vice President where his focus was on developing operations in core areas and identifying new business opportunities. Mr. Jayson is a graduate of Johns Hopkins University. Following his graduation, Mr. Jayson worked in investment banking, portfolio management, and trading in both New York and London. Mr. Jayson has also received a master’s degree from Texas Christian University Neeley School of Business, and the designation of Aresty Scholar from the Wharton School of Executive Education.

Matthew P. Iak. *Executive Vice President and Director.* Mr. Iak joined U.S. Energy in 2005, following a successful early career as Vice President of Fisher Investments, Inc., an international money management firm, and bringing with him brokerage experience of managed business in excess of one billion dollars. Mr. Iak holds his Series 7, 24, and 63 licenses, and is the President of Westmoreland. Mr. Iak is a graduate of Canisius College.

Robert J. Woody. *Director.* Mr. Woody is one of three independent Directors on the Board and acts as the lead independent Director. Mr. Woody has extensive experience as an executive and board member, including with companies he co-founded in the energy, private equity, and insurance businesses. He has also been a partner in two law firms and has served as counsel to a committee of the United States Senate and to the U.S. Delegation to the United Nations. Mr. Woody received his Bachelor of Arts Degree in History and Political Science and his Juris Doctorate Degree from the University of Kansas.

Christer S. Rundlof. *Director.* Mr. Rundlof is one of three independent Directors on the Board. Mr. Rundlof has a broad business background, having worked as an engineer, in investment banking, and

currently as an executive in the midstream sector of the oil and gas industry. Mr. Rundlof received a Bachelor of Mechanical Engineering Degree from the Georgia Institute of Technology, and a Master of Business Administration Degree from the University of North Carolina Kenan-Flagler Business School.

Josh Sherman. *Director.* Mr. Sherman is one of three independent Directors on the Board. Mr. Sherman is a partner in Opportune LLP, a leading global energy business advisory firm, where he is in charge of the Complex Financial Reporting and Corporate Finance service lines. He also has significant experience as a director, having served on the boards of three other energy companies. Mr. Sherman received his Bachelor of Business Administration and Master of Professional Accounting Degrees from The University of Texas in Austin.

Brandon Standifird. *Chief Financial Officer.* Mr. Standifird is a Certified Public Accountant. He joined U.S. Energy in 2018 after working for several other oil and gas companies in executive and management positions in the areas of finance and accounting. Mr. Standifird is a graduate of Brigham Young University, and holds a Master of Business Administration from the Kellogg School of Management at Northwestern University.

Jake Plunk. *Senior Vice President of Acquisitions and Divestitures.* Mr. Plunk joined U.S. Energy in 2023 after serving as an independent non-executive director to U.S. Energy's Board of Directors for a year. Prior to joining the team at U.S. Energy, Mr. Plunk served as the CEO and COO of Fleur de Lis Energy, LLC (FDL) and the VP of business development and investor relations at Merit Energy, respectively. In each of these leadership roles, Mr. Plunk had oversight and responsibility over production, strategic planning, negotiated acquisitions and divestments, and managing multiple investor relationships. Mr. Plunk has overseen more than \$7 billion in acquisitions and more than \$4 billion in divestments. Mr. Plunk graduated from Texas Tech University earning a degree in petroleum engineering and is a member of Texas Tech's Petroleum Engineering Academy and the Petroleum Industry Advisory Board.

Todd C. Witmer. *Vice President of Corporate Development.* Mr. Witmer joined U.S. Energy in 2001 as a geologist and has since served in various leadership and executive positions. Mr. Witmer has geological experience in all of the basins where U.S. Energy operates and has also played an active role in acquisitions and divestitures by the company. Mr. Witmer received his Bachelor of Science in Environmental Studies, Bachelor of Arts in Geological Sciences, and Master of Science in Geology Degrees from the State University of New York at Buffalo. He also received his Master of Business Administration Degree from Southern Methodist University's Cox School of Business.

Kevin Duncan. *Vice President of Operations.* Mr. Duncan joined U.S. Energy in 2020. He has more than three decades of technical experience and has held executive and management positions with both oil and gas and private equity companies. Mr. Duncan received a Bachelor of Science Degree in Petroleum Engineering from Texas A&M University.

Mike Williams. *Vice President of Engineering.* Mr. Williams' extensive industry background includes both managerial and director-level positions with the notable oil and gas producers MorningStar Partners, BlueStem Energy, Approach Resources, XTO Energy, and ExxonMobil. Most recently, Williams served five years as vice president of reservoir engineering at Founders Oil & Gas where he led their efforts in the Permian Basin, the primary region of U.S. Energy's investment focus. Williams holds a degree in chemical engineering from the University of

Mississippi where he was awarded a prestigious NASA Space Grant for undergraduate research related to clean coal technology.

Michael D. Haven. *Vice President of Capital Markets.* Mr. Haven joined U.S. Energy in 2011 after working for several industry leading consumer product companies in national account sales and market management. He holds a Series 22 license. Mr. Haven received his Bachelor of Arts Degree in Psychology from Canisius College.

Joshua Dazey. *General Counsel.* Mr. Dazey joined U.S. Energy in 2021. He brings executive management and general counsel experience in the oil and gas industry, as well as experience working at a large international law firm. Mr. Dazey received his law degree from Georgetown University Law Center and is licensed to practice law in Texas and California.

Remuneration.

No officer or director of the Managing General Partner will receive any direct remuneration or other compensation from the Partnership. These persons will receive compensation solely from the Managing General Partner and its Affiliates, including, for Mr. Iak, who is also the President of Westmoreland and Mr. Haven, who is also employed by Westmoreland. It is noted that the compensation that will be paid by the Managing General Partner and/or Westmoreland to Mr. Iak and Mr. Haven, who oversee the sale of limited partnership interests in Programs sponsored by the Managing General Partner, will reflect the level of sales of such investments, including sales of Units in the Partnership.

Security Ownership of Certain Beneficial Owners.

One hundred percent (100%) of the common stock of U.S. Energy Development Corporation is owned by Jayson Enterprises, Ltd., a Texas limited partnership whose partners are a limited liability company and various trusts, the majority of the trustees of which are members of the Jayson family or selected by members of the Jayson family.

Transactions with Management and Affiliates.

Westmoreland, which is an Affiliate of the Managing General Partner, will be acting as Dealer-Manager with respect to the Offering of Units in the Partnership (See Section XXV (Plan of Distribution)).

The Managing General Partner, its officers, directors, and Affiliates may subscribe for Units in the Partnership.

Privacy and Security.

U.S. Energy maintains industry standard controls and systems to protect the privacy of the personal information it collects, including information from investors in the partnerships which it sponsors.

XII. PROPOSED ACTIVITIES

Overview of Partnership Activities.

The Partnership is being formed for the purpose of investing in and developing projects in a range of asset classes including oil and gas, Alternative Energy Projects, and other energy-related assets as an Operator or as a non-operating participant. Project types may include, but are not limited to, infrastructure development, oil and gas Lease acquisition, acquisition of existing or participating in the drilling of new oil and gas wells, acquisition of mineral rights, Alternative Energy Project development, or other energy related project development. Infrastructure projects could include, among others, oil or natural gas gathering and/or transportation pipelines and their related facilities, saltwater disposal wells and related facilities, produced water gathering pipelines or recycling projects, or water supply well development. Oil and gas well projects could include acquiring Working Interests as a non- Operator in underfunded well proposals or in drilled but uncompleted wells. Alternative Energy Projects could include solar, wind, hydrogen, geothermal, hydropower, biomass, biofuel, carbon capture, carbon capture utilization and storage, battery energy storage, mechanical energy storage, thermal energy storage, or other renewable energy projects or similar methods and related infrastructure and may involve funding or investment in the pre-development phase of Alternative Energy Projects, consisting of permitting, land/lease acquisition, engineering, and overall project planning for the purpose of development or divestiture to a third-party.

The Managing General Partner will evaluate each potential project for the Partnership. When deemed appropriate, a discounted future cash flow model will be developed as part of the evaluation. A determination will then be made if the acquisition or investment should be pursued and if it is to be pursued the Managing General Partner will, on behalf of the Partnership attempt to negotiate acceptable terms for the contemplated transaction. If acceptable terms are agreed upon, the Managing General Partner will complete the due diligence it deems appropriate and, if the due diligence results are acceptable, will proceed to complete the acquisition or investment for the Partnership. While there may be variations to this process for some projects, the general concepts described will continue to apply.

Certain Drilling Rights May Be Retained by Other Parties, Possibly Including the Managing General Partner.

If the Partnership participates in the drilling of any wells, the Partnership will receive Assignments of the portions of the applicable Lease(s) anticipated to be incorporated in proration or production units or acreage for such wells. Acquisition of existing wells by the Partnership may involve Lease Assignments. The Lease Assignments to the Partnership may be limited by a prior owner of the Lease to the depth of the geological formation to which the applicable well was drilled, produced, or as required by the applicable Lease or operating agreement. Accordingly, it is possible that there will be unassigned portions of Leases and/or other depth rights retained by a prior owner of the Leases. If such prior owner offers the retained portions of Leases and/or other depth rights for sale, the Managing General Partner may, but shall not be required to, purchase such retained leaseholds and/or other depth rights for its own account. If undeveloped leaseholds and/or other depth rights are assigned to the Partnership, they may only be acquired from the Partnership by the Managing General Partner or an Affiliate of the Managing General Partner on a fair and reasonable basis. However, the Managing General Partner shall not be obligated to acquire any such undeveloped leasehold interests or other depth rights. If the Managing General Partner does acquire the

undeveloped leasehold interests and/or other depth rights from either a prior owner or the Partnership and, in the future, undertakes any activities with respect thereto, the Partnership would not share in the profits, if any, from such activities, nor would it pay any of the associated costs.

Interests of Parties in Wells.

Generally, production and revenues to the Partnership from a well will be net of the applicable Landowner's Royalty Interest which, depending upon the formation involved and date when the applicable Lease was entered into, can vary from 1/8th (twelve and one-half percent (12.5%)) of gross production to 1/4th (twenty-five percent (25%)) or more and also net of any interest in favor of third-parties such as Overriding Royalty Interests. Landowner's Royalty Interest generally means a non-cost-bearing interest which is created in favor of the landowner when an oil and natural gas Lease is obtained, and Overriding Royalty Interest generally means a non-cost-bearing interest which is created in favor of someone other than the landowner. In either case, the owner of the interest receives a specific percentage of the oil and natural gas production free and clear of all costs of development, operation, or maintenance of the well. The interest the Partnership will own is known as a Working Interest and the share of the production and revenues attributable to that interest is known as a Net Revenue Interest. The Working Interest is a cost bearing interest including the costs of development, operation, and maintenance of the well.

Wells will be acquired subject to existing Overriding Royalty Interests, if any, including any existing Overriding Royalty Interests owned by the Managing General Partner. No new Overriding Royalty Interest will be created in favor of the Managing General Partner, or any Affiliate of the Managing General Partner, as a result of a transaction with the Partnership. However, if the Partnership acquires and then resells oil and gas Leases, it is anticipated that the Partnership may retain an Overriding Royalty Interest.

Managing General Partner's Interest; Carried Interest.

U.S. Energy Development Corporation will have the equivalent of what may be described as a "conditional net profits interest," as more fully described below (the "**Carried Interest**"). The interest may also be described as "carried" because the Managing General Partner is not obligated to make contributions to the Partnership for it. Except as provided below for situations involving special distributions, the Managing General Partner will not receive any portion of net Partnership revenues until cumulative distributions to the Investors equal the net Subscription Proceeds (i.e., the amount invested less commissions, fees, and the three-tenths of one percent (0.3%) payment to the Managing General Partner) from the Limited Partners plus a rate of return of eight percent (8%) of net Subscription Proceeds from such Investor per annum. When that level of Investor returns is achieved, the Managing General Partner will thereafter receive twenty-five percent (25%) of Partnership net revenues. U.S. Energy's right to receive such payments will not be affected if it is terminated as Managing General Partner. Distributions to Investors will be made in accordance with the Partnership's Cash Distribution Policy and only amounts actually distributed to Investors will be used in calculating the cumulative distributions to Investors. Monies applied to the purchase of additional Units through the DRIP shall be included as distributions to the Investors in calculating cumulative Investor distributions.

In the event the Partnership acquires an asset, or an interest in an asset, that is then sold and the sale results in a special distribution to the Investors (i.e., a distribution that exceeds the

Partnership's Cash Distribution Policy), the Managing General Partner may calculate its interest in that asset separately. In any such instance, the Investors shall first receive an amount equal to the purchase price of the asset, or interest in the asset, plus eight percent (8%) per annum from the date of purchase to the date of sale of such asset, and the Investors shall receive seventy-five percent (75%) and the Managing General Partner shall receive twenty-five percent (25%) of all additional amounts. In making such calculations, the sale price of the asset, or interest in the asset, plus all revenues received by the Partnership from the asset, or interest in the asset, from the date of its acquisition to the date of its sale, shall be included. In such event, the amounts of the purchase price of the asset, or the interest in the asset, and the distributions to the Investors shall be excluded in the calculation of the Managing General Partner's interest in the remaining Partnership assets and distributions. Since the Managing General Partner will decide both if the sale of an asset will result in a special distribution and if its interest in that asset will be calculated separately, there is the potential for a conflict of interest and it is not prohibited for the Managing General Partner to make such decisions in its best interest. In the event that the Managing General Partner both (i) makes a special distribution pursuant to this paragraph, and (ii) elects to calculate its interest in that asset separately as set forth above, then any amounts that Managing General Partner receives allocable to the 25% Managing General Partner interest after Investors have received the full purchase price of the asset plus 8% per annum from the date of the purchase of such asset, shall be subject to a clawback right until the Investors receive the applicable preferred return described in the prior paragraph. Such clawback obligation of the Managing General Partner will be calculated upon the final liquidation of the Partnership, and will be payable by the Managing General Partner as soon as reasonably practicable thereafter, taking into account, amounts previously returned, net of taxes calculated at an assumed rate. Unless required by applicable law, in no event, however, will the Managing General Partner be required to return in respect of any Investor more (i) than the cumulative Carried Interest distributions received by it in respect of such Investor, net of (ii) any amounts necessary to enable the Managing General Partner, its members or the intended beneficiaries of the Carried Interest to satisfy any tax liabilities incurred as a result of any of their direct or indirect allocation or receipt of Carried Interest.

Title to Properties.

Title to all assets acquired by the Partnership will generally be held in the name of the Partnership. However, to facilitate the acquisition of such assets, title may initially be held in the name of:

- the Managing General Partner;
- its Affiliates; or
- any nominee designated by the Managing General Partner.

The Partnership's title to the Leases and other assets where recording is applicable, will generally be filed for record on the closing of each acquisition. Transfer of title to certain energy assets initially held by the Managing General Partner, its Affiliates or its nominee may be subject to consents or preferential rights to purchase, in which case the Managing General Partner shall, or shall cause its Affiliates or nominees to, hold such assets in trust for the Partnership until such time as the required consents or preferential rights to purchase are obtained or not exercised.

The Managing General Partner will take the steps that it deems necessary to assure that the Partnership has acceptable title for its purposes. However, it is not the practice in the oil and natural gas industry to warrant title or obtain title insurance on Leases or assets and the Managing General Partner may not obtain either for the Leases or other assets it acquires on behalf of the Partnership. The Managing General Partner may, as it deems necessary, have a review of title conducted prior to completing an acquisition, but the Managing General Partner may use its own judgment in waiving title requirements and will not be liable for any failure or defect of title of assets transferred to the Partnership. There also is no assurance that the Partnership will not experience losses from title defects excluded from or not disclosed by the title review. If the title to the interest in an asset is defective, then the Partnership may not have the right to recover against the transferor, the Managing General Partner or its Affiliates, on a warranty of title theory.

Operation of Producing Wells.

If the Partnership acquires or drills a well in a geographic area where the Managing General Partner is operating other wells, the Managing General Partner may enter into an operating agreement with the Partnership pursuant to which it will operate the newly acquired or drilled wells.

If there is a co-owner of the well which serves as the actual Operator instead of the Managing General Partner, then the Managing General Partner will oversee the activities of the External Operator. The Managing General Partner would review the performance of the External Operator which would include the following:

- monitoring all field operations in connection with drilling, testing and equipping the wells;
- monitoring the technical decisions required in drilling and completing the wells;
- monitoring the costs and expenses charged by the External Operator; and
- monitoring the accounting and production records for the Partnership.

The actual Operator will perform services for each well which are customarily performed to operate a well in the same general area as where the well is located. The External Operator will be reimbursed for its Direct Costs and will receive either reimbursement of its administrative overhead or well supervision fees pursuant to an operating agreement. These fees will be subject to an annual adjustment for inflation and will be proportionately reduced to the extent the Partnership does not acquire one hundred percent (100%) of the interest in the well. During producing operations, the well Operator's duties include:

- maintaining the wells, equipment and facilities in good working order during the useful life thereof; and
- performing necessary accounting and administrative functions.

The Managing General Partner as Operator will be reimbursed for its direct expenses and, for any wells it operates, will receive well supervision fees for operating and maintaining the wells during producing operations at rates that the Managing General Partner determines in its sole discretion, to be fair and reasonable to the Partnership. The Operating Agreement contains a number of other

material provisions which should be carefully reviewed and understood by you and the other prospective Investors.

It is possible that the Partnership may own a minority interest in one or more wells or other assets. This will decrease the Partnership's interest in the well or other asset but increase the diversification of the Partnership's activities. Any other interest owner in a well or other asset will have a separate agreement with the Operator thereof with respect to the operating of the well or other asset, possibly with differing terms and conditions from those contained in the Partnership's Operating Agreement.

Sale of Oil and Natural Gas Production.

In General.

The Partnership's assets may include interests in oil and gas wells and the production therefrom. The Managing General Partner is responsible for selling the Partnership's oil and natural gas production. For oil and natural gas sold since 2004, the Managing General Partner received an average selling price after deducting all expenses, including transportation expenses, of:

Year		Natural Gas Price per mcf		Oil Price per Barrel
2003		\$5.81		\$27.69
2004		\$5.94		\$37.66
2005		\$8.62		\$50.04
2006		\$7.43		\$60.40
2007		\$7.38		\$66.49
2008		\$8.98		\$100.69
2009		\$5.30		\$58.12
2010		\$5.25		\$73.31
2011		\$4.50		\$88.25
2012		\$3.61		\$84.91
2013		\$4.40		\$90.22
2014		\$4.42		\$92.54
2015		\$1.93		\$45.27
2016		\$1.66		\$39.33
2017		\$2.78		\$49.09
2018		\$2.53		\$57.61
2019		\$1.97		\$52.83
2020		\$1.85		\$35.82
2021		\$3.45		\$60.97
2022		\$5.90		\$94.35
2023		\$3.13		\$77.11
2024		\$1.36		\$73.64

The Managing General Partner anticipates that other operators may market some of the oil and natural gas on the Partnership's behalf, subject to the Managing General Partner's consent which may be revoked at any time. If other operators' pipeline and/or compression facilities are used,

then normally they will charge the Partnership a combined gathering and marketing fee, and a combined gathering, marketing, and treating or compression fee, if treating or compression of the gas is required. The Managing General Partner will endeavor to negotiate these fees in advance. These fees will be proportionately reduced to the extent the Partnership acquires less than one hundred percent (100%) of the interest in the wells. Managing General Partner will endeavor for the Partnership to be assigned the seller's existing contracts relating to the use of pipelines and midstream services without any material change in the terms thereof.

The Partnership's oil and natural gas production may be marketed to third-party natural gas marketers for sale to end-users or on the spot market. Currently, the Managing General Partner does not know the percentage of the Partnership's natural gas that will be sold to end-users or on the spot market and there are no guaranteed fixed price offtake arrangements in place. As such the Partnership is unable to predict the price to be paid or quantities to be delivered. It is possible that the Partnership will acquire or drill wells that primarily produce oil and are located in areas without access to pipelines. In such instances, natural gas produced from such wells may be flared, and not sold, to allow such wells to continue to produce oil.

Presence of Liquids in Natural Gas.

Various liquid Hydrocarbons are frequently produced with natural gas. If present in sufficient volume they must be removed from the gas stream for the gas to be of pipeline quality. If the volume is sufficient to justify the cost of collecting the natural gas liquids, they can be marketed and increase production revenues. The amount of liquids in natural gas varies, not only from producing formation to producing formation but also among different geographic areas within the same formation.

Hedging.

The Managing General Partner may use financial instruments to hedge the price risk of any of the Partnerships' oil or natural gas production, or other assets, which may result in the Partnership incurring additional costs and risk. There is no guaranty that hedging will benefit the Partnership.

Insurance.

The Managing General Partner will obtain and maintain insurance coverage in amounts and for purposes which would be carried by a reasonable, prudent general contractor and operator in accordance with industry standards, as reasonably determined by the Managing General Partner. The Partnership will be named as an additional insured under these policies. The Managing General Partner's current insurance coverage satisfies the following specifications:

- worker's compensation insurance in compliance with the state laws where the Managing General Partner operated wells and other assets are located;
- comprehensive general public liability and property damage insurance with \$1,000,000 combined single limit coverage and \$2,000,000 aggregate coverage;
- comprehensive automobile public liability and property damage insurance with combined single limits of \$1,000,000;

- pollution legal liability coverage of \$1,000,000 per occurrence and \$4,000,000 of excess liability which protects and defends the insured against property damage or bodily injury claims from third-parties, other than a co-owner of the interest in the well or other asset, alleging seepage, pollution or contamination damage resulting from an accident;
- excess liability and umbrella liability insurance with combined limits of up to \$25,000,000 per occurrence or accident and in the aggregate;
- well control insurance on a well-by-well basis, when deemed appropriate, with a limit of \$5,000,000 for wells up to 5000' in depth and \$10,000,000 for wells greater than 5000' in depth; and
- crime coverage, with limits of up to \$3,000,000 and cyber liability coverage, with limits of \$3,000,000 in the aggregate.

Because the Managing General Partner will be the driller and operator for other partnerships there is a risk that the insurance available to the Partnership could be substantially less if there are claims with respect to the other partnerships. However, there have been no prior successful liability claims against the Managing General Partner in its history.

These insurance policies will have terms, including exclusions and deductibles, which are standard for the oil and natural gas industry. Upon reasonable request, the Managing General Partner will provide you or your representative access to a copy of its insurance coverage summary, subject to confidentiality obligations. The Managing General Partner will use its reasonable efforts to maintain insurance coverage which meets or exceeds its current coverage, but may be unsuccessful if the coverage becomes unavailable or too expensive.

Use of Consultants and Subcontractors.

The Partnership Agreement authorizes the Managing General Partner to use the services of independent outside consultants, contractors and subcontractors on behalf of the Partnership. The services will normally be paid on a per diem or other cash fee basis and will be charged to the Partnership as part of the cost of an acquisition or, if such services relate to the operation of wells or energy-related assets, as either a direct cost or as a direct expense under the Operating Agreement.

XIII. COMPETITION, MARKETS, AND REGULATION

Natural Gas Regulation.

Governmental agencies regulate the production and transportation of natural gas. Generally, the regulatory agency in the state where a producing natural gas well is located supervises production activities and the transportation of natural gas sold into intrastate markets and the Federal Energy Regulatory Commission (“FERC”) regulates the interstate transportation of natural gas.

Natural gas prices are not regulated and the price of natural gas is subject to the supply and demand for the natural gas along with factors such as the natural gas’ BTU content and where the wells are located. See Section XIII (Competition, Markets, and Regulation - Competition and Markets) for certain measures which FERC has taken to increase the competitiveness in natural gas markets.

Crude Oil Regulation.

Oil prices are not regulated and the price is subject to the supply and demand for oil, along with qualitative factors such as the gravity of the crude oil and sulfur content differentials.

Other Energy Asset Regulation.

Prices for produced energy or for the use of energy related infrastructure assets are generally not regulated but may be subject to regulatory approval. For example, tariffs setting charges for the use of natural gas transportation pipelines are subject to approval by the applicable state or federal regulatory agency.

Competition and Markets.

There are many companies engaged in oil and natural gas drilling operations in the areas where the Partnership may conduct its activities. The oil and natural gas industry is highly competitive in all phases, including acquiring suitable properties for drilling and marketing oil and natural gas. Product availability and price are the principal means of competing in selling oil and natural gas. Many of the Partnership’s competitors will have financial resources and staffs larger than those available to the Partnership. While it is impossible to accurately determine the Partnership’s industry position, the Managing General Partner does not consider the Partnership’s operations to be a significant factor in the industry.

The costs of oil and natural gas exploration and development fluctuate. The industry historically has experienced periods of rapid cost increases from time to time. There is a risk that over the term of the Partnership there will be fluctuating or increasing costs in doing business which would directly affect the Managing General Partner’s ability to operate the Partnership Wells and/or other energy-related assets at acceptable price levels. Also, increases in oil or natural gas prices or other factors may increase the demand for drilling rigs and other related equipment. This may increase the cost to drill the Partnership Wells or reduce the availability of drilling rigs and related equipment, both of which could adversely affect the Partnership.

In order for you to realize revenues, the oil and natural gas produced by the Partnership Wells, or wells on which the Partnership’s assets are dependent, must be marketed. As set forth above, oil and natural gas prices and/or other energy and commodity prices are not regulated and instead are

subject to supply and demand factors as well as other factors largely beyond the control of the Partnership and the Managing General Partner. For example, reduced oil or natural gas demand and/or excess supplies will result in lower prices. In recent years, oil and natural gas prices have been volatile.

The marketing of production will be affected by numerous factors beyond the control of the Partnership and the Managing General Partner, and which cannot be accurately predicted. These factors include, but are not limited to, the following:

- the proximity, availability, and capacity of pipeline and other transportation facilities;
- competition from other energy sources;
- local, state, and federal regulations regarding production and transportation;
- fluctuating seasonal supply and demand because of various factors such as home heating requirements in the winter months;
- the amount of domestic production and foreign imports of oil and natural gas; and
- political instability in oil producing countries.

There are other potential developments, beyond the control of the Managing General Partner, which could affect commodity prices. Increased production from non-conventional sources, including shale formations, could increase available commodity supplies. Increased energy production from renewable sources could impact demand for natural gas. Members of OPEC establish production quotas for petroleum products from time to time with the intent of decreasing, maintaining, or increasing price levels. Similarly, increases or decreases in production volumes or prices by Russia, acting alone or in concert with OPEC, could impact commodity prices or demand. The Managing General Partner, however, is unable to predict what effect these factors will have on the price of the oil and natural gas sold from the Partnership Wells or wells on which the Partnership's assets are dependent.

The various factors affecting the price of oil and natural gas result in regional differences in pricing. Accordingly, it is anticipated that the price which the Partnership receives for oil and natural gas products from its wells will not be uniform.

FERC has sought to promote greater competition in natural gas markets in the U.S. Historically, natural gas was sold by producers to interstate pipeline companies, which then resold the natural gas to local distribution companies for resale to end-users. FERC changed this market structure by requiring interstate pipeline companies to transport natural gas for others. Thereafter, FERC Order 636 was issued which requires pipeline companies to, among other things, separate their sales services from their transportation services and provide an open access transportation service that is comparable in quality for all natural gas suppliers or producers. The premise behind FERC Order 636 was that the interstate pipeline companies had an unfair advantage over other natural gas suppliers or producers because they could bundle their sales and transportation services together. FERC Order 636 is designed to ensure that no natural gas seller has a competitive advantage over another natural gas seller because it also provides transportation services.

In February, 2000, FERC Order 637 was issued to provide further competitive initiatives by removing price ceilings on short-term capacity release transactions. FERC has also enacted other regulatory policies that are intended to increase the flexibility of interstate natural gas transportation. Further, FERC required pipeline companies to develop electronic bulletin boards to provide standardized access to information concerning capacity and prices.

There were several developments which the Managing General Partner believes had the effect of increasing the demand for natural gas. For example, the Clean Air Act Amendments of 1990 contained incentives for the development of “clean alternative fuel,” which included natural gas and liquefied petroleum gas for “clean-fuel vehicles.” Also, the electricity industry increased its reliance on natural gas because of increased competition in the electricity industry and the development of environmental regulations regarding emissions. For example, the Department of Energy has denied financial incentives to utilities to build large scale nuclear power plants and hydroelectric projects. Policies like this have helped make natural gas the fuel of choice for electricity producers which moved away from dirtier-burning fuels, such as coal and oil. The electricity industry has brought new natural gas-fired power plants into service, some of which are not designed to allow for switching to other fuels. However, there is also an effort to replace fossil fuels with renewable energy sources for electrical generation.

Similar concerns to those discussed above for natural gas exist for other energy-related assets that the Partnership may become involved or invested in.

State Regulations.

Most states have a comprehensive statutory and regulatory scheme for oil and natural gas operations, or other energy related activities, which create additional financial and operational burdens. Among other things, these regulations involve:

- certain bonding or other security measures;
- various permitting or notice requirements;
- various reporting requirements; and
- well plugging standards and procedures.

State regulatory agencies also have broad regulatory and enforcement powers including those associated with pollution and environmental control laws which are discussed below.

Environmental Regulation.

The Partnership’s operations are subject to various federal, state, and local laws covering the discharge of materials into the environment, or otherwise relating to the protection of the environment. Under these laws, the Partnership may be required to obtain permits or authorizations from the EPA and state and local agencies and take other measures with respect to the discharge of pollutants into navigable waters, disposal of solid wastes and wastewater, and air pollutant emissions. Violation of these requirements or permits may result in substantial civil and criminal penalties which can increase if the violation involves willful negligence or misconduct. Also, the Partnership may be liable for civil penalties, criminal penalties, and/or significant cleanup costs

under various environmental laws for the release of oil, solid wastes, or other hazardous substances, such as the Oil Pollution Act of 1990, the Clean Water Act of 1972, as amended, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, and their state and local analogues. The Managing General Partner is not currently aware of any environmental liabilities pursuant to these laws that are expected to be material in relation to the Partnership's operations.

The Partnership's liability can also extend to pollution costs that occurred on the Leases and related lands before they, or a wellbore Assignment, were acquired by the Partnership. The Managing General Partner may not require an independent environmental audit of the Leases or a wellbore before they are transferred to the Partnership. Thus, there is a risk that the Leases, related lands, and wells could have potential environmental liability.

The Partnership's required compliance with these environmental laws and regulations may cause delays or increase the cost of the Partnership's drilling and producing activities. Because these laws and regulations are constantly being revised and changed, the Managing General Partner is unable to predict the ultimate costs of complying with present and future environmental laws and regulations. Also, the Managing General Partner is unable to obtain insurance to protect against many environmental claims. (See also Section II (Risk Factors - Risk of Failure to Comply with Environmental Regulations and/or Risk of Pollution and Environmental Liabilities)).

Proposed Regulation.

From time to time, there are a number of proposals being considered in Congress and in the legislatures and agencies of various states that if enacted would significantly and adversely affect the oil and natural gas and energy related industries and the Partnership. The proposals involve, among other things:

- limiting the disposal of wastewater from wells, which could substantially increase the Partnership's Operating Costs and make the Partnership Wells uneconomical to produce;
- limiting methane and other emissions from wells, which could substantially increase the Partnership's Operating Costs and make the Partnership Wells uneconomical to produce; and
- changes in regulatory oversight or requirements and changes in the tax laws as described in Section XVII (Material United States Federal Income Tax Considerations).
- changes in the tax laws.

It is, however, impossible to accurately predict what proposals, if any, will be enacted and their subsequent effect on the Partnership's activities, now and in the future.

XIV. PARTICIPATION IN COSTS AND REVENUES

In General.

The Partnership Agreement provides for sharing the Partnership's costs and revenues among the Managing General Partner, you and the other Investors. A tabular summary of the following discussion appears below.

Costs.

1. **Organization and Offering Costs.** Organization and Offering Costs in the amount of up to eight and three-tenths percent (8.3%) of the total Subscription Proceeds will be paid from the Subscription Proceeds funded by you and the other Investors.
 - Organization and Offering Costs generally means all costs of organizing and selling the Offering, and includes Dealer-Manager Fee, Sales Commission, Due Diligence Fee, Marketing Expense Fee, any other compensation to the Dealer-Manager and the broker-dealers, and the three-tenths of one percent (0.3%) payment to the Managing General Partner for its efforts in organizing the Partnership and the Offering.
 - Other costs and charges related to the organization of the Partnership and the Offering, once known, will be charged to, and paid by, the Partnership up to a maximum of one and one-half percent (1.5%) of the Subscription Proceeds if less than \$50,000,000 is raised or a maximum of one percent (1%) of the Subscription Proceeds if \$50,000,000 or more is raised.
2. **Operating Costs, Direct Costs, Administrative Costs, and All Other Costs.** Operating Costs, Direct Costs, Administrative Costs, the Management Fee, and all other Partnership Costs not specifically allocated will be charged to the Partnership as the owner of one hundred percent (100%) of the Working Interest in the wells and other energy-related assets but will be proportionately reduced if the Partnership owns a lesser Working Interest.
 - These Costs generally include all costs of Partnership administration and the Costs of acquiring, producing, and maintaining the Partnership Wells and related energy assets.

Revenues.

The revenues of the Partnership from all of its wells and other energy-related assets will be commingled and treated as a common fund for the Partnership. Thus, regardless of when you subscribe to the Partnership you will share in the subsequent production revenues from all its wells and revenues generated by the other energy-related assets on the same basis as the other Investors in the Partnership according to the Cash Distribution Policy and in proportion to the number of your Units. However, if you subscribe after distributions have been made you will not receive a proportionate share of the prior distributions. All distributions will be made in accordance with the Partnership's Cash Distribution Policy. Note that Qualified Entities, and other Participants who so elect, will become LLC Members, which LLC will be a Limited Partner. Distributions, in the

nature of dividends, will be made by the LLC to its members proportionately based upon the amounts invested.

1. **Partnership Income.** All revenues resulting from the Partnership's acquisitions and investments shall be paid to the Partnership and, potentially except in situations related to special distributions as more fully described in Section XII (Proposed Activities - Managing General Partner's Interest), allocated to the Limited Partners until such time as the Investors have received cumulative distributions equal to the net Subscription Proceeds from the Investors plus eight percent (8%) of the net Subscription Proceeds per annum, and thereafter distributed seventy-five percent (75%) to the Limited Partners and twenty-five percent (25%) to the Managing General Partner.
2. **Interest Proceeds.** Interest income, including interest earned on the deposit of production revenues, will be credited to the Partnership. Monies paid to the Managing General Partner, after the Initial Closing Date, for use in acquisitions or operations, will be maintained in a separate account and any interest earned on such monies will be paid to the Partnership. The Partnership will not receive interest on any monies that are paid to the Managing General Partner for use in the operation of wells, or other Partnership assets.

Allocation and Adjustment Among Investors.

The Investor's share of the Partnership's revenues, gains, income, costs, expenses, losses, and other charges and liabilities generally will be charged and credited, among you and the other Investors, pro rata in accordance with your respective Units at the time of such distribution or allocation and the Cash Distribution Policy described below.

Distributions.

Distributions, if any, will be made quarterly from available cash as discussed below. The Partnership has adopted a Cash Distribution Policy which is included in the Amended and Restated Agreement of Limited Partnership that is attached as Exhibit A. The Cash Distribution Policy establishes a Target Distribution for Limited Partners, which also may be the maximum distribution they will receive, as follows:

- In each case, the Investor's annualized distribution will be an amount up to, but not to exceed, twelve percent (12%), annualized, of the amount of the Investor's net Subscription Proceeds; provided, the Managing General Partner has the right to change such percentage based upon actual Partnership performance (the "**Target Distribution**").
- Each Investor will be eligible to receive distributions on a pro rata basis made with respect to the quarter in which such Investor is admitted to the Partnership, determined by dividing the number of days in such quarter in which such Investor was admitted to the Partnership or the LLC, as applicable, by the total number of days in such quarter, and multiplying that percentage against the full quarterly distribution that such Investor would otherwise receive were they eligible for a full distribution.
- Distributions to the LLC, as a Limited Partner, will be in a manner that will allow the LLC to make distributions to its individual LLC Members in conformance with the Cash

Distribution Policy. Distributions by the LLC shall be made promptly upon receipt of distributions from the Partnership.

The Cash Distribution Policy also includes the following provisions:

- Quarterly distributions of the cash determined to be available will be allocated among the Limited Partners and the Managing General Partner based upon the Target Distribution applicable to each Limited Partner and the percentage distribution to which the Managing General Partner may be entitled (based on the cumulative total of distributions to the Investors as described in Section XII (Proposed Activities - Managing General Partner's Interest));
- If the actual distributions to Limited Partners for a quarter are less than the Target Distribution, the difference will not be accumulated and paid at a later date, rather the Target Distribution will be the maximum distribution in any quarter;
- Partnership earnings in excess of the Target Distributions and reserves which the Managing General Partner determines to be necessary or appropriate, if any, may be invested in additional acquisitions of, or investments in, energy-related assets;
- The reserves which the Managing General Partner may consider in determining the amount of cash available for distributions is not restricted by magnitude but is limited to the following purposes: operating, administrative, and other costs the Partnership will incur; future distributions to the Limited Partners and Managing General Partner; and the acquisition and/or development of oil and gas properties and other assets;
- Distributions will only be made from earnings from assets acquired by the Partnership. Net Subscription Proceeds from Investors or proceeds from any borrowing, will not be used to make distributions; and
- The Cash Distribution Policy does not prohibit the Managing General Partner from making special or additional distributions if, in the Managing General Partner's sole discretion, it determines that such distributions are necessary or appropriate and that sufficient cash is available.

The Managing General Partner will review the Partnership accounts quarterly to determine whether cash distributions are appropriate and the amount to be distributed, if any. The Partnership will only distribute those funds which the Managing General Partner does not believe are necessary for the Partnership to retain. Distributions, if any, will be made in accordance with the Partnership's Cash Distribution Policy. Also, funds will not be advanced or borrowed for distribution purposes nor will Subscription Proceeds be used for such purpose. Any cash distributions from the Partnership to the Managing General Partner will only be made in conjunction with distributions to you and the other Investors and only out of funds properly allocated to the Managing General Partner's account. The LLC will make distributions to its members promptly following the receipt of Partnership distributions.

Maximum Term of the Partnership.

The Partnership will continue in existence for a maximum term of 25 years unless it is terminated earlier by a Final Terminating Event, or an event which causes the dissolution of a limited partnership under state law. However, if the Partnership terminates on an event which causes a dissolution under state law and it is not a Final Terminating Event, then a successor limited partnership will automatically be formed. Thus, only on a Final Terminating Event will the Partnership be liquidated. The LLC will remain in existence for the same time period as the Partnership or its successor limited partnership. Distributions of Partnership interests received by the LLC upon liquidation will be promptly redistributed to the LLC Members pro rata.

On liquidation you will receive your interest in the Partnership. Generally, this means, after payments to Partnership creditors, an undivided interest in the Partnership assets, if any, in the ratio your Capital Account bears to all Capital Accounts until they have been reduced to zero. Thereafter, your interest in the remaining Partnership assets will equal your interest in the related Partnership revenues. Upon the dissolution and liquidation of the Partnership, the Managing General Partner may, in its sole discretion, make distributions of assets (i) in cash, (ii) in kind or (iii) partly in cash and partly in kind. Any asset distributed in kind shall first be valued by an Independent Expert; provided, Roll-Up Entity securities distributed in kind shall be valued in accordance with the terms thereof.

XV. CONFLICTS OF INTEREST

In General.

Conflicts of interest are inherent in oil and natural gas partnerships involving non-industry investors because the transactions are entered into without arms' length negotiation. Your interests and those of the Managing General Partner and its Affiliates may be inconsistent in some respects or in certain instances, and the Managing General Partner's actions may not be the most advantageous to you. Similar conflicts of interest may arise with respect to the acquisition, ownership, or operation of other energy-related assets.

The following discussion describes certain, but not all, possible conflicts of interest that may arise for the Managing General Partner and its Affiliates in the course of the Partnership, and for some of the conflicts of interest, but not all, certain limitations which are designed to reduce, but which will not eliminate, the conflicts. Other than these limitations the Managing General Partner has not established procedures to resolve a conflict of interest and under the terms of the Partnership Agreement the Managing General Partner may resolve the conflict of interest in its sole discretion and best interest.

The discussion below is not intended to be exhaustive, and other transactions or dealings may arise in the future that could result in conflicts of interest for the Managing General Partner and its Affiliates.

Conflicts Regarding Transactions with the Managing General Partner and its Affiliates.

Although the Managing General Partner believes that the compensation and reimbursement that it and its Affiliates will receive in connection with the Partnership are reasonable, the compensation has been determined solely by the Managing General Partner and did not result from negotiations with any unaffiliated third party dealing at arms' length. The Managing General Partner and its Affiliates will be entitled to receive compensation and reimbursement from the Partnership for their services in drilling, completing, and operating the Partnership Wells under the Operating Agreement and will receive the other fees described in Section VIII (Compensation) regardless of the success of the Partnership Wells. The Managing General Partner or its Affiliates providing the services or equipment can be expected to profit from the transactions, and it may be in the Managing General Partner's best interest to enter into contracts with itself and its Affiliates rather than unaffiliated parties even if the contract terms, or skill and experience, offered by the unaffiliated third parties is comparable.

The Partnership Agreement provides that when the Managing General Partner and any Affiliate provide services or equipment to the Partnership, their fees must be fair and reasonable to the Partnership. Also, any services provided to the Partnership for which the Managing General Partner or an Affiliate is to be compensated that are not described in this Memorandum or the Partnership Agreement must be set forth in a written contract which describes the services to be rendered and the compensation to be paid.

Conflicts Regarding Transactions with the Managing General Partner and the Transfer Agent.

The Managing General Partner has engaged one of its Affiliates, U.S. Transfer Agency, Inc., as the transfer agent, registrar and administrator with respect to the Partnership and the LLC (the “**Transfer Agent**”). The Transfer Agent will be entitled to the reimbursement of actual costs and expenses incurred. Such costs and expenses may include costs and expenses of third-party services as well as in-house costs and expenses. Any in-house costs and expenses will be charged at rates that the Managing General Partner determines to be fair and reasonable under the circumstances.

Conflicts Regarding the Acquisition of Wells from Partnerships Sponsored by the Managing General Partner.

The Managing General Partner has previously sponsored partnerships for the drilling of oil and gas wells. No prior energy asset acquisition program has acquired wells from drilling partnerships previously sponsored by the Managing General Partner. The Managing General Partner has obligations to the drilling partnerships under their applicable partnership agreements. A sale of drilling Partnership Wells may excuse the Managing General Partner from such obligations, possibly creating an incentive for the Managing General Partner to have this Partnership acquire the wells of a drilling partnership it previously sponsored. To avoid this potential conflict of interest, the Partnership will not acquire any wells that are operated by the Managing General Partner or that are owned by drilling partnerships previously sponsored by the Managing General Partner.

Conflict Regarding the Operating Agreement.

If the Partnership acquires or drills wells or acquires other assets that are thereafter operated by the Managing General Partner under the Operating Agreement, this creates a continuing conflict of interest for the Managing General Partner since it will be required to monitor and enforce, on behalf of the Partnership, its own compliance with the provisions of the Operating Agreement.

Conflicts Regarding Partnership Representative.

The Managing General Partner will serve as the Partnership Representative and represent the Partnership before the IRS. The Managing General Partner will have broad authority to act on behalf of you and the other Investors in any administrative or judicial proceeding involving the IRS, and this authority may involve conflicts of interest. For example, potential conflicts include

- whether or not to expend Partnership funds to contest a proposed adjustment by the IRS, if any, to the amount of the Managing General Partner’s depreciation deductions; and
- the amount of the Managing General Partner’s reimbursement from the Partnership for expenses incurred by it in its role as the Partnership Representative. Such expenses will be calculated at an hourly rate for employees of U.S. Energy and at Cost plus ten percent (10%) for materials and third-party services.

Conflicts Regarding Other Activities of the Managing General Partner, the Operator, and Their Affiliates.

The Managing General Partner will be required to devote to the Partnership the time and attention which it considers necessary for the proper management of the Partnership’s activities. However, the Managing General Partner and its Affiliates have sponsored and continue to manage other oil

and natural gas drilling partnerships, and real estate programs, which may be concurrent, and may engage in unrelated business activities, either for their own account or on behalf of other partnerships, Joint Ventures, corporations, or other entities in which they have an interest. Thus, they will have conflicts of interest in allocating management time, services, resources, and other activities. The Managing General Partner will determine the allocation of its management time, services, resources, and other functions on an as-needed basis consistent with its fiduciary duties, as such duties are modified by the Partnership Agreement, among the Partnership and its other partnerships.

Subject to its fiduciary duties, as modified by the Partnership Agreement, the Managing General Partner will not be restricted in any manner from participating in other businesses or activities, even if these other businesses or activities are competitive with the Partnership's activities and operate in the same areas as the Partnership.

Conflicts Involving the Acquisition of Wells and Related Energy Assets.

The Managing General Partner will select, in its sole discretion, the wells and other energy-related assets to be acquired by the Partnership. Conflicts of interest may arise concerning which wells or assets will be acquired by the Partnership, particularly if the Managing General Partner and its Affiliates, their other affiliated partnerships or third-party programs in which they serve as Operator contemplate acquisitions of existing wells or assets. These potential conflicts of interest will be increased if the Managing General Partner organizes and allocates wells and assets to more than one partnership at a time.

The Lease or Leases will be assigned to the Partnership by the Managing General Partner for each well acquired. The Leases assigned to the Partnership may be limited to the portions of the Leases incorporated in proration or production units or acreage by the Partnership's well(s), which may be the drilling or spacing unit on which one Partnership Well is located, which also may be the minimum acreage allowable under law with respect to a well location, or may be limited to the wellbore of the well, which is commonly used with respect to wells that are drilled horizontally. The wellbore assignment gives the assignee the right to receive a proportionate share of all revenues derived from oil and gas produced by the applicable well but does not convey any additional rights with respect to the Leases affecting the properties on which the well is drilled. An acquisition by the Partnership may include locations for developmental or infill wells which the Partnership may elect to drill. If the Partnership does not acquire such locations, the Managing General Partner may acquire and/or retain all surrounding acreage. The Partnership's activities will provide the Managing General Partner with production information from which it can determine the feasibility of drilling wells on the surrounding acreage. However, the Partnership will not participate in drilling these wells.

Conflicts Involving the Sale of Leases Acquired by the Partnership.

Among the energy-related assets which the Partnership may acquire are undeveloped oil and gas Leases. If the Partnership does not develop or fully develop the Leases by drilling one or more wells, it may sell the Leases, or portions of the Leases, to other entities, including the Managing General Partner or other partnerships sponsored by the Managing General Partner, so that they may drill thereon. The Managing General Partner will determine if the Partnership will develop or sell such Leases and if such Leases are to be sold to the Managing General Partner or another

Partnership sponsored by the Managing General Partner. In such instances, the purchase price must be at fair market value as determined by the Managing General Partner in its reasonable discretion and such transaction may include the retention of an Overriding Royalty Interest by the Partnership.

No procedures, other than the guidelines set forth below and in Section XV (Conflicts of Interest - Procedures to Reduce Conflicts of Interest), have been established by the Managing General Partner to resolve any conflicts which may arise. The Partnership Agreement provides that the Managing General Partner and its Affiliates will abide by the guidelines set forth above and below.

1. **Transfer of Less than the Managing General Partner's and its Affiliate's Entire Interest.** Subject to Item 2 below, if the Managing General Partner or an Affiliate sells or transfers to the Partnership less than all of its ownership in any well, Lease, or other asset then it must comply with the following conditions:

- the interest retained by the Managing General Partner or its Affiliate must be a proportionate interest; and
- the Managing General Partner's obligations and the Partnership's obligations must be substantially the same after the sale or transfer of the interest by the Managing General Partner or its Affiliates; and
- the Managing General Partner's or its Affiliate's interest in revenues must not exceed the amount proportionate to its retained interest.

For example, if the Managing General Partner transfers fifty percent (50%) of its interest in a well to the Partnership and retains a fifty percent (50%) interest, then the Partnership will not pay any of the costs associated with the Managing General Partner's retained interest as a part of the transfer. This limitation does not prevent the Managing General Partner or its Affiliates from subsequently dealing with their retained interest as they may choose with unaffiliated parties or affiliated partnerships. For example, the Managing General Partner may sell its retained interest to a third party for a profit.

2. **Sale of Producing Properties to the Managing General Partner and its Affiliates, Including Affiliated Limited Partnerships.** The Partnership may sell a producing property to an affiliated partnership or entity without the consent of the Investors provided that:

- if the sale is to a fund sponsored by the Managing General Partner or any of its Affiliates, the respective obligations and revenue sharing of all parties to the transaction are substantially the same and the compensation arrangement or any other interest or right of either the Managing General Partner or its Affiliates is the same in each affiliated partnership or entity, or if different, the aggregate compensation of the Managing General Partner or the Affiliate is reduced to reflect the lower compensation arrangement; and
- the sale must be made at fair market value as determined by an Independent Expert.

These arrangements will create a conflict of interest for the Managing General Partner because of either its dual representation or lack of independence.

3. **Leases Will Be Acquired Only for Stated Purpose of the Partnership.** The Partnership will only acquire Leases or other assets reasonably expected to meet the stated purposes of the Partnership. No Leases or other assets will be acquired by the Partnership for the purpose of a subsequent sale unless the acquisition would be in the Partnership's best interest, as determined by the Managing General Partner.

Conflicts Between Investors and the Managing General Partner as an Investor.

Because the Managing General Partner and its Affiliates have reserved the right to buy Units needed to be subscribed to by Participants to close, you and the other Investors will not have the assurance that the minimum Subscriptions of \$500,000 were purchased by unaffiliated third parties. Also, any Subscription by the Managing General Partner, its officers, directors, or Affiliates will affect the voting rights of you and the other Investors and there may be a conflict of interest with respect to certain matters. The Managing General Partner and its officers, directors, and Affiliates are not prohibited from voting their Units with respect to any matter and may do so regardless of the existence of any conflict of interest. Further, the inability of you and the other Investors to obtain a list of the Investors makes it more difficult to call a meeting of the Investors and to vote on certain matters.

Lack of Independent Underwriter and Due Diligence Investigation.

The terms of this Offering, the Partnership Agreement, and the Operating Agreement were determined by the Managing General Partner without arms' length negotiations. You and the other Investors have not been separately represented by legal counsel, who might have negotiated more favorable terms for you and the other Investors in the Offering and the agreements.

Also, there was not an extensive in-depth "due diligence" investigation of the existing and proposed business activities of the Partnership and the Managing General Partner which would be provided by independent underwriters. Although Westmoreland, which is affiliated with the Managing General Partner, serves as Dealer-Manager and may receive a Due Diligence Fee for certain due diligence investigations conducted by the Selling Agents which will be re-allocated to the Selling Agents, its due diligence examination concerning this Offering cannot be considered to be independent.

Conflicts Concerning Management of the LLC.

Qualified Entities and other Participants who so elect will become LLC Members and the LLC will become a Limited Partner in the Partnership. Management of the LLC will be vested in U.S. Energy, the Managing General Partner, meaning that the Managing General Partner will be voting the interest of the LLC in any matter being voted on by the Partnership. The LLC Operating Agreement requires the LLC manager (U.S. Energy) to poll the LLC Members on any issue being voted on by the Partnership and to cast a proportionate share of the LLC's vote to reflect the responses it receives. The proportionate share of the LLC's vote attributable to the LLC Members who do not respond in such poll will be cast as determined by the LLC manager.

Conflicts Concerning Legal Counsel.

It is anticipated that legal counsel to the Managing General Partner will also serve as legal counsel to the Partnership and that this dual representation will continue in the future. If a future dispute arises between the Managing General Partner and you and the other Investors in the Partnership,

then the Managing General Partner will cause you and the other Investors to retain separate counsel. Also, if the Managing General Partner is advised by counsel that it reasonably believes its representation of the Partnership will be adversely affected by its responsibilities to the Managing General Partner, then the Managing General Partner will cause you and the other Investors in the Partnership to retain separate counsel.

Conflicts Regarding Presentment Feature.

You and the other Investors have the right to present your Units to the Managing General Partner for repurchase once each year between January 1 and March 31, beginning 24 months after seventy-five percent (75%) or more of all Partnership funds are invested. This feature creates the following conflicts of interest between you and the Managing General Partner.

- The Managing General Partner may suspend the presentment feature if it determines that it does not have sufficient cash flow after taking into account amounts that the Managing General Partner deems prudent or advisable to retain for operational purposes or as reserves, or it deems it not prudent to borrow funds for this purpose on terms available to the Managing General Partner, in its sole discretion. Both of these determinations related to the suspension are subjective and may be made in the Managing General Partner's sole discretion.
- The Managing General Partner will also determine the repurchase price based on a reserve report that it prepares and that is reviewed by an Independent Expert, which it chooses. The formula for arriving at the repurchase price has many subjective determinations that are within the discretion of the Managing General Partner.

Conflicts Regarding Managing General Partner Withdrawing an Interest.

A conflict of interest is created with you and the other Investors by the Managing General Partner's right to mortgage its interest in the Partnership Wells to be used as collateral for a loan to the Managing General Partner. If there was a default under the loan, this could reduce the amount of the Managing General Partner's cash available for its obligation to you and the other Investors.

Procedures to Reduce Conflicts of Interest.

The Managing General Partner and its Affiliates will comply with the procedures set forth in the Partnership Agreement, which are summarized below, to reduce or mitigate some of the conflicts of interest with you and the other Investors. The Managing General Partner does not have any other conflict of interest resolution procedures. Thus, conflicts of interest between the Managing General Partner and you and the other Investors may not necessarily be resolved in your best interests.

1. **Fair and Reasonable.** The Managing General Partner will not sell, transfer, or convey any property to, or purchase any property from, the Partnership except on terms and conditions that the Managing General Partner believes are fair and reasonable to the Partnership. Any sale of undeveloped Leases by the Partnership to the Managing General Partner or a partnership sponsored by the Managing General Partner must be at fair market value, as determined by the Managing General Partner, and may include an Overriding Royalty Interest to be retained by the Partnership.

2. **No Compensating Balances.** The Managing General Partner may not use the Partnership's funds as a compensating balance for its own benefit.
3. **Future Production.** The Managing General Partner may not commit the future production of the Partnership Wells exclusively for its own benefit.
4. **Disclosure.** As of the date of this Memorandum, all material agreements or arrangements that bind the Partnership are disclosed or referenced herein.
5. **No Loans from the Partnership to the Managing General Partner.** The Partnership may not loan money to the Managing General Partner.
6. **No Rebates.** The Managing General Partner may not participate in any business arrangement which would circumvent these guidelines including receiving rebates or give-ups. Nothing herein shall prohibit the Managing General Partner from dealing with equipment suppliers who offer rebates provided such rebates are shared with the Partnership on a pro rata basis.
7. **Sales of Assets.** Prior to a Final Terminating Event, any sale of a single asset that (i) has an acquisition cost that exceeds twenty-five percent (25%) of the Partnership's total Subscription Proceeds as of the Closing Date and (ii) has a fair market value, that exceeds twenty-five percent (25%) of the Partnership's net asset value at the time of the proposed sale, as reasonably determined by the Managing General Partner, shall require the consent of a Majority in Interest of Participants.
8. **Participation in Other Partnerships.** If the Partnership participates in other partnerships or Joint Ventures then the terms of the arrangements must not circumvent any of the requirements contained in the Partnership Agreement, including the following:
 - there shall ultimately be no duplication or increase in Organization and Offering Costs, the Managing General Partner's compensation, Partnership expenses, or other fees and costs;
 - there shall be no substantive change in the fiduciary and contractual relationship between the Managing General Partner, and you and the other Investors; and
 - there may be no diminishment in the voting rights amongst the Partners.
9. **Investments.** Partnership funds may not be invested in the securities of another person except in the following instances:
 - investments in interests made in the ordinary course of the Partnership's business;
 - temporary investments in income producing short-term highly liquid investments, in which there is appropriate safety of principal, such as U.S. Treasury Bills; multi-tier arrangements meeting the requirements of Item (8) above;
 - certain Joint Ventures;

- investments involving less than five percent (5%) of the Partnership's Subscription Proceeds, which are a necessary and incidental part of a property acquisition transaction; and
 - investments in entities established solely to limit the Partnership's liabilities associated with the ownership or operation of property or equipment; *provided*, in these instances duplicative fees and expenses shall be prohibited
10. **Marketing Arrangements.** All benefits from marketing arrangements or other relationships affecting property of the Managing General Partner or its Affiliates and the Partnership must be fairly and equitably apportioned, as reasonably determined by the Managing General Partner, according to the respective interests of each in the property.

Policy Regarding Roll-Ups.

It is possible at some indeterminate time in the future that the Partnership may become involved in a Roll-Up. In general, a Roll-Up means a transaction involving the acquisition, merger, conversion, or consolidation of the Partnership with or into another partnership, corporation, or other entity, and the issuance of securities by the Roll-Up Entity to you and the other Investors in the Partnership. If a Roll-Up occurs, it may also include changes in the rights, preferences, and privileges of you and the other Investors in the Partnership.

If a Roll-Up should occur in the future, the Partnership Agreement provides various policies, including the following:

- an Independent Expert must appraise all Partnership assets and you must receive a summary of the appraisal in connection with the proposed Roll-Up;
- if you vote "no" on the Roll-Up proposal and the Roll-Up proceeds, then you will be offered a choice of:
 - accepting the securities of the Roll-Up Entity;
 - in the Managing General Partner's sole discretion, remaining a Partner and preserving your Units in the Partnership, however the affirmative vote of the owners of more than fifty percent (50%) of the Units in the Partnership to participate in the Roll-Up will result in the dissolution of the Partnership; or
 - receiving cash in an amount equal to your pro-rata share of the appraised value of the Partnership's net assets; and
- the Partnership will not participate in a proposed Roll-Up:
 - unless approved by a Majority in Interest of Partners;
 - which would result in the diminishment of your voting rights under the Roll-Up Entity's chartering agreement as compared to the voting rights provided by the Partnership Agreement; provided, a change to such Person's ownership interest percentage in the Roll-Up Entity and related voting rights as compared to the

Partnership shall not constitute a diminishment of such Person's voting rights as compared to the voting rights provided by the Partnership Agreement;

- in which your right of access to the records of the Roll-Up Entity would be less than those provided by the Partnership Agreement; or
- in which any of the transaction costs would be borne by the Partnership if the proposed Roll-Up is not approved by a Majority in Interest of Partners.

XVI. FIDUCIARY RESPONSIBILITY OF THE MANAGING GENERAL PARTNER

In General.

The Managing General Partner will manage the Partnership and its assets. In conducting the Partnership's affairs, the Managing General Partner is accountable to you as a fiduciary, as such fiduciary and other duties are modified by the Partnership Agreement, and it must exercise good faith and deal fairly with you and the other Investors in the Partnership. If the Managing General Partner breaches its fiduciary responsibilities, then you may be entitled to an accounting and the recovery of any economic loss caused by such breach. Also, the Managing General Partner has a fiduciary responsibility for the safekeeping and use of all funds and assets of the Partnership whether or not in the Managing General Partner's possession or control. The Managing General Partner may not employ or permit another to employ, the funds or assets in any manner except for the exclusive benefit of the Partnership. If you have questions concerning the duties of the Managing General Partner, you should consult your own counsel.

Limitations on Managing General Partner Liability as Fiduciary.

Under the terms of the Partnership Agreement, the Managing General Partner, the Operator, and their Affiliates have limited their liability to the Partnership, to you and to the other Investors for any loss suffered by the Partnership or you and the other Investors which arises out of any action or inaction on their part if:

- they were acting on behalf of, or performing services for, the Partnership or its investments; and
- their course of conduct did not constitute gross negligence or willful misconduct.

Thus, you and the other Investors may have a more limited right of action than you would have had without these limitations in the Partnership Agreement.

In addition, the Partnership Agreement provides for indemnification of the Managing General Partner, the Operator, and their Affiliates by the Partnership against any losses, judgments, liabilities, expenses, and amounts paid in settlement of any claims sustained by them in connection with the Partnership or its investments; provided that, they meet the standards set forth above. However, there is a more restrictive limitation for indemnification for losses arising from or out of an alleged violation of federal or state securities laws. Also, to the extent that any indemnification provision in the Partnership Agreement purports to include indemnification for liabilities arising under the Securities Act of 1933, you should be aware that, in the SEC's opinion, this indemnification is contrary to public policy and therefore unenforceable.

Any payments arising from the indemnification or agreement to hold harmless are recoverable only out of the Partnership's:

- tangible net assets;
- revenues; and

- insurance proceeds.

Still, use of Partnership funds or assets for indemnification would reduce amounts available for Partnership operations or for distribution to you and the other Investors.

The Partnership will not pay the cost of the portion of any insurance which insures the Managing General Partner, the Operator, or an Affiliate against any liability for which they cannot be indemnified. In addition, Partnership funds can be advanced to them for legal expenses and other costs incurred in any legal action for which indemnification is being sought only if the Partnership has adequate funds available and certain conditions in the Partnership Agreement are met.

XVII. MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

This section of this Memorandum provides a discussion of certain material, federal income tax consequences of the purchase, ownership, and disposition of the Units. References herein to the Partnership shall be deemed to include the LLC, except where the context requires otherwise. The discussion does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to invest in the Units, and does not purport to deal with tax consequences applicable to all categories of investors, some of which may be subject to special rules, including persons who hold, actually or constructively, ten percent (10%) or more of the interests in the Partnership or the LLC, partnerships, pass-through entities, persons that hold Units through pass-through entities, tax-exempt organizations, insurance companies, financial institutions, broker-dealers, investors holding Units as part of a conversion transaction, hedge or hedging transaction or as a position in a straddle, regulated investment companies, real estate investment trusts and traders in securities that elect to mark-to-market. The summary deals only with taxpayers who will hold Units as capital assets for U.S. federal income tax purposes. Further, except to a limited extent below, this discussion does not address gift tax, alternative minimum tax or Medicare contribution tax consequences of holding Units. The summary does not address the tax treatment of investors under the tax laws of any country other than the United States in which they may be resident or otherwise subject to taxation. Except to the limited extent discussed below, the summary does not address the tax consequences of a Limited Partner that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code. This summary also does not address the tax treatment of any investor, the Partnership, the LLC or the Managing General Partner or any investment under the laws or regulations of any state or locality of the United States.

This summary is based on the provisions of the Code, final, temporary and proposed U.S. Treasury regulations promulgated thereunder, and administrative and judicial interpretations thereof, all as in effect and available as of the date hereof, all of which are subject to change (possibly on a retroactive basis) and to differing interpretations. No assurance can be given that the IRS will not adopt interpretations different from the interpretations summarized below, and no ruling from the IRS has been or will be sought. In some cases, such changes in the law or the IRS's interpretation could adversely affect the tax consequences of an investment in the Partnership by certain Limited Partners. The U.S. federal income tax treatment of a Limited Partner that holds Units through a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes will depend on the status of the partners and the activities of the partnership.

Different tax considerations than those addressed in this discussion may apply to foreign persons, corporations, partnerships, trusts and other prospective investors that are not treated as individuals for federal income tax purposes. Also, the treatment of the tax attributes of the Partnership may vary among investors.

You are urged to seek qualified, professional assistance in the preparation of your federal, state, and local tax returns with specific reference to your own tax situation.

Partnership Classification.

For federal income tax purposes, a partnership is not a taxable entity. Thus, the partners, rather than the partnership, receive any deductions, as well as the income, from the operations engaged in

by the partnership. A business entity with two or more members is classified for federal tax purposes as either a corporation or a partnership. Because the Partnership was formed under the Delaware Revised Uniform Limited Partnership Act which describes the Partnership as a “partnership” and has more than one member, it will automatically be classified as a partnership unless it elects to be classified as a corporation. In this regard, the Managing General Partner has represented that the Partnership will not elect to be taxed as a corporation. The IRS has made no determination as to the status of the Partnership or the status of the Partnership's operating subsidiaries for federal income tax purposes.

If a partnership is treated as a “publicly traded partnership,” it will generally be characterized as a corporation for federal income tax purposes, unless it has sufficient income that is qualifying income within the meaning of Section 7704 of the Code. A partnership is treated as a publicly traded partnership if its interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. The Partnership Agreement prohibits transfers of Units without the written consent of the Managing General Partner, and further empowers the Managing General Partner to prevent transfers that, based on an opinion of counsel to the Partnership, would result in the Partnership becoming a publicly traded partnership and therefore taxable as a corporation for federal income tax purposes. The Managing General Partner intends to operate the Partnership, including transfers of Units, consistent with the Partnership Agreement so that the Partnership is not treated as a publicly traded partnership taxable as a corporation. In particular, the presentment feature is intended to fall within the definition of a “redemption and repurchase agreement” for purposes of Section 7704 of the Code and the U.S. Treasury regulations promulgated thereunder. (See Section XXIII (Presentment Feature)). Based on the foregoing, and in addition, based on certain safe harbors within the Code, and subject to certain assumptions, covenants and representations given by the Managing General Partner and investors, the Partnership will receive an opinion of A&O Shearman that the Partnership should not be treated as a publicly traded partnership taxable as a corporation for federal income tax purposes.

Tax Basis of Units.

A Partner's share of the Partnership's loss is generally deductible only to the extent of the adjusted basis of the Partner's Units at the end of the Partnership's taxable year. A Partner's initial tax basis in its Units will be its cash Subscription payment. The adjusted basis of a Partner's Units will be reduced, but not below zero, by (i) the Partner's share of Partnership losses, (ii) Partnership expenditures which are not deductible in computing the Partnership's taxable income or loss and which are not Tangible Costs, (iii) the Partner's deduction for depletion for any Partnership oil and gas property (to the extent it does not exceed the proportionate share of the adjusted basis of the property allocated to such Partner), and (iv) any cash distributions from the Partnership to the Partner.

The reduction in a Partner's share of Partnership liabilities, if any, is considered a cash distribution. Partners will not be personally liable on any Partnership loans. Should cash distributions exceed the tax basis of the Partner's Units, taxable gain would result to the extent of the excess. (See Section XVII (Material United States Federal Income Tax Considerations - Distributions From the Partnership)).

“At Risk” Limitation for Losses.

Subject to the limitations on “passive losses” generated by the Partnership and a Partner's basis in the Partner's Unit, a Partner may use its share of the Partnership's losses to offset passive income from other sources. However, the Partner may deduct the loss only to the extent of the amount the Partner has “at risk” in the Partnership at the end of a taxable year. A Partner's initial amount “at risk” is the amount the Partner paid for the Units. In addition, the amount a Partner has “at risk” may not include the amount of any loss that the Partner is protected against through nonrecourse loans, guarantees, stop loss agreements, or other similar arrangements.

The amount of any loss that is disallowed will be carried over to the next taxable year and may be utilized to the extent a Partner is “at risk”. A Partner's “at risk” amount in subsequent taxable years with respect to the Partnership will be reduced by that portion of the loss which is allowable as a deduction. Losses disallowed under the at-risk rules may also be deducted in a succeeding taxable year to the extent of any gain recognized upon the disposition of the Partner's Units. To the extent the Partnership's distributions cause a Partner's “at risk” amount to be less than zero at the end of any taxable year, the Partner must recapture any losses deducted in previous years. The amount included in income under this recapture provision may be deducted in a subsequent taxable year to the extent of any increase in the amount which the Partner has “at risk”.

Limitations on Passive Activities.

Under the passive activity rules, all income of a taxpayer who is subject to the rules is categorized as (i) income from passive activities such as limited partners' interests in a business, (ii) active income such as salary, bonuses, etc., or (iii) portfolio income such as gain, interest, dividends and royalties unless earned in the ordinary course of a trade or business.

Losses generated by “passive activities” can offset only passive income and cannot be applied against active income or portfolio income. Suspended losses may only be carried forward and used to offset future years' passive activity income.

Passive activities include any trade or business in which the taxpayer does not materially participate on a regular, continuous, and substantial basis. Under the Partnership Agreement, Limited Partners will not have material participation in the Partnership and generally will be subject to the passive activity limitations.

Limitations on Deduction of Investment Interest and Limitations of Business Interest.

Investment Interest

Investment interest expense is deductible by a non-corporate taxpayer only to the extent of net investment income each year, with an indefinite carry forward of disallowed investment interest. These rules do not apply to Partnership income or expense subject to the passive activity loss limitations for limited partners.

Business Interest

The Partnership's ability to deduct business interest expense will be limited for federal income tax purposes to an amount equal to the Partnership's business interest income and thirty percent (30%) of adjusted taxable income during the taxable year computed without regard to any business interest income or expense.

Any disallowance or excess limitation will generally be determined at the Partnership level. Excess business interest of the Partnership is not treated as paid or accrued by the Partnership in the succeeding taxable year. Instead, excess business interest is allocated to each Limited Partner in the same manner as the non-separately stated taxable income or loss of the Partnership. Excess business interest allocated to a Limited Partner is treated as business interest paid or accrued by the Limited Partner in the next succeeding taxable year in which the Limited Partner is allocated excess taxable income from the Partnership but only to the extent of such excess taxable income. Any remaining excess business interest can be carried forward by the Limited Partner and deducted subject to the excess taxable income limitation. A Limited Partner's adjusted basis in its Partnership interest is reduced (but not below zero) by the amount of excess business interest allocated to the Partner.

Availability of Certain Deductions.

Ordinary and necessary business expenses, including reasonable compensation for personal services actually rendered, are deductible in the year incurred. The fees paid to the Managing General Partner and its affiliates will not be currently deductible to the extent they are (i) in excess of reasonable compensation, (ii) properly characterized as organization or syndication fees; (iii) properly characterized as Lease or well acquisition costs, or (iv) not "ordinary and necessary" business expenses. In the event of an audit, payments to the Managing General Partner and its affiliates by the Partnership may be scrutinized by the IRS to a greater extent than payments to an unrelated party.

Intangible Drilling Costs.

If the Partnership drills any wells and pays some, or all, of the Intangible Drilling Costs for such wells, subject to the passive activity loss rules, a Partner generally will be entitled to deduct its share of the Partnership's Intangible Drilling Costs, which include items which do not have salvage value, such as labor, fuel, repairs, supplies and hauling necessary to the drilling of a well. Intangible Drilling Costs, if any, generally will be treated as ordinary income if a property is sold at a gain. Also, productive-well Intangible Drilling Costs may subject a Partner to an alternative minimum tax in excess of regular tax unless the Partner elects to deduct all or part of these costs ratably over a 60-month period.

The amount of the deduction for Intangible Drilling Costs is subject to limitations for integrated oil companies.

Each Partner should consult with their personal tax advisor concerning the tax benefits of the Partnership's deduction for Intangible Drilling Costs in light of such Partner's own tax situation.

Depletion Allowance.

Proceeds from the sale of the Partnership's oil and natural gas production will constitute ordinary income. A certain portion of that income will not be taxable because of the depletion allowance, which permits the deduction from gross income for federal income tax purposes of either the percentage depletion allowance or the cost depletion allowance, whichever is greater. Depletion deductions generally will be treated as ordinary income if a property is sold at a gain.

Percentage depletion generally is available to taxpayers other than integrated oil companies. Percentage depletion is based on a Partner's share of the Partnership's gross production income from its oil and natural gas properties. The rate of percentage depletion is fifteen percent (15%). However, percentage depletion for marginal production increases one percent (1%), up to a maximum increase of ten percent (10%), for each whole dollar that the domestic wellhead price of crude oil for the immediately preceding year is less than \$20 per barrel, without adjustment for inflation. The term "marginal production" is defined as domestic crude or domestic natural gas produced from either (i) stripper well property, which is defined by the Code as any property which produces a daily average of 15 equivalent barrels or less of oil or 90 mcf or less of natural gas, per producing well on the property in the calendar year, or (ii) property in which substantially all the production is heavy oil, which is defined by the Code as domestic crude oil produced from any property if such crude oil had a weighted average gravity of 20 degrees API or less. The rate of percentage depletion for marginal production is at least fifteen percent (15%). This rate fluctuates from year to year depending on the price of oil, but will not be less than fifteen percent (15%) or more than twenty-five percent (25%). Percentage depletion may not exceed one hundred percent (100%) of the net income from each oil and natural gas property before the deduction for depletion, and is limited to sixty-five percent (65%) of the taxpayer's taxable income for a year computed without regard to percentage depletion, net operating loss carry-backs and capital loss carry-backs.

Partners that do not qualify for percentage depletion are generally restricted to depletion deductions based on cost depletion. Cost depletion for any year is determined by dividing the adjusted tax basis for the property by the total units of oil or natural gas expected to be recoverable from the property and then multiplying the resultant quotient by the number of units actually sold during the year. Cost depletion cannot exceed the adjusted tax basis of the property to which it relates.

Availability of percentage depletion must be computed separately by each Partner, and not by the Partnership or for investors as a whole. Partners are urged to consult tax advisors with respect to the availability of percentage depletion.

Depreciation.

A depreciation deduction generally will be available for the payment of equipment costs in the year such equipment is placed into service. The Tax Cuts and Jobs Act (the "TCJA") increased the bonus depreciation percentage to one hundred (100%) until December 31, 2022, decreasing 20% each year thereafter unless extended by Congress, which effectively allows an immediate deduction of 40% of the cost of qualifying tangible property (which generally includes tangible personal property such as equipment with a recovery period of 20 years or less) for such property acquired and placed in service in 2025, and 20% for 2026.

Net Investment Income Tax.

Section 1411 of the Code levies a three and eight-tenths percent (3.8%) tax (commonly referred to as the Net Investment Income Tax) on certain individuals, trusts, and estates. For individuals, the amount subject to tax is the lesser of an individual's net investment income for the tax year, or the excess of the individual's modified adjusted gross income for the tax year over the threshold amount. Under Section 1411 of the Code, the threshold amounts are as follows: \$250,000 for married individuals filing jointly or as a surviving spouse, \$200,000 for individuals filing single or head of household, and \$125,000 for married individuals filing separately. Because application of

Section 1411 of the Code to each individual investor will depend on its specific circumstances, potential Partners are urged to consult their own tax advisors with respect to the application of Section 1411 of the Code to them.

For purposes of Section 1411 of the Code, net investment income includes, among other income items, dividends, and, generally, income from a trade or business that is a passive activity, as defined by Section 469 of the Code. As a result, Partnership income allocated to individual limited partners (as passive income) will constitute net investment income for purposes of Section 1411 of the Code.

Distributions from the Partnership.

Generally, a cash distribution from the Partnership to a Partner in excess of the adjusted basis of the Partner's Units immediately before the distribution is treated as gain from the sale or exchange of to the Partner's Units to the extent of the excess. No loss can be recognized by the Partners on these distributions. Also, disproportionate distributions of property and liquidating distributions may result in taxable gain or loss.

Sale of the Properties.

In 2025, net long-term capital gains of a non-corporate taxpayer on the sale of assets held more than a year are generally taxed at a maximum rate of twenty percent (20%). The annual capital loss limitation for non-corporate taxpayers is the amount of capital gains plus the lesser of \$3,000, which is reduced to \$1,500 for married persons filing separate returns, or the excess of capital losses over capital gains.

Oil and natural gas properties generally will qualify as a capital asset or as property used in a trade or business and, therefore, if the property was held for the requisite holding period, any gain will constitute capital gain subject to depreciation recapture on equipment and recapture of any Intangible Drilling Costs, depletion deductions and certain losses on previous sales, if any, of the Partnership's assets, which produce ordinary income to the extent of the recapture of gain as ordinary income. Intangible Drilling Costs that are incurred in connection with an oil and natural gas property may be recaptured as ordinary income when the property is disposed of by the Partnership. In addition, the deductions for depletion which reduced the adjusted basis of the property are subject to recapture as ordinary income, and all gain on disposition of tangible personal property is treated as ordinary income to the extent of MACRS deductions claimed by the Partnership.

The amount to be recaptured as ordinary income is the lesser of (i) the aggregate amount of expenditures that were deducted as intangible drilling costs, development costs or exploration costs with respect to such property and which, but for such deduction, would have been included in the adjusted basis of such property, and depletion deductions that reduced the adjusted basis of the property, or (ii) the excess of the amount realized in a sale, exchange or involuntary conversion (or fair market value if the disposition is not such a transaction), over the adjusted basis of the property.

Other gains and losses on sales of oil and natural gas properties will generally result in ordinary gains or losses.

Distributions From the Partnerships.

Generally, a cash distribution from a Partnership to a Partner in excess of the adjusted basis of the Partner's Units immediately before the distribution is treated as gain, as though it arose from the sale or exchange of the Partner's Units to the extent of such excess. If property is distributed by the Partnership to the Managing General Partner and the Partners, certain basis adjustments may be made by the Partnership, the Managing General Partner, and the Partners. No loss will be recognized by the Partners on these distributions. Also, disproportionate distributions of property and liquidating distributions may result in taxable gain or loss.

Disposition of Units.

The sale or exchange, including a repurchase by the Managing General Partner, of all or part of a Partner's Units held by a Partner for more than 12 months will generally result in recognition of long-term capital gain or loss. However, previous deductions for depletion and/or intangible drilling costs, if any, may be recaptured as ordinary income rather than capital gain. If the interest is held for 12 months or less, then the gain or loss will generally be short-term gain or loss. Also, a Partner's pro rata share of the Partnership's liabilities, if any, as of the date of the sale or exchange must be included in the amount realized. Therefore, the gain recognized may result in a tax liability greater than the cash proceeds, if any, from such disposition. In addition to gain from a passive activity, a portion of any gain recognized by a Limited Partner on the sale or other disposition of its Units will be characterized as portfolio income under Section 469 of the Code to the extent the gain is itself attributable to portfolio income, e.g. interest on investment of working capital.

Allocations.

The Partnership Agreement allocates to each Limited Partner its share of the Partnership's income, gains, losses, and deductions including any deduction for Intangible Drilling Costs. (See Section XIV (Participation in Costs and Revenues)). The Limited Partners' Capital Accounts are adjusted to reflect these allocations and will be given effect in distributions made to the Limited Partners on liquidation of the Partnership or any Limited Partner's Units. Generally, the basis of oil and natural gas properties owned by the Partnership for computation of cost depletion and gain or loss on disposition will be allocated and reallocated when necessary in the ratio in which the expenditure giving rise to the tax basis of each property was charged as of the end of the year.

Allocations made in a manner that is disproportionate to the respective interests of the Partners in the Partnership of any item of Partnership income, gain, deduction or credit will not be given effect unless the allocation has "substantial economic effect," as that term is defined in federal tax law.

Special provisions apply to deductions related to nonrecourse debt. For example, if the Managing General Partner or an affiliate makes a nonrecourse loan to the Partnership ("partner nonrecourse liability"), Partnership losses, deductions, or expenditures (as described under Section 705(a)(2)(B) of the Code) attributable to the loan must be allocated to the Managing General Partner, and if there is a net decrease in partner nonrecourse liability minimum gain with respect to the loan, the Managing General Partner must allocate income and gain equal to the net decrease.

In the event of a sale or transfer of a Limited Partner's Unit or the admission of an additional Limited Partner after the close of the offering, Partnership income, gain, loss and deductions generally will be allocated among the Limited Partners on a daily basis according to their varying interests in the Partnership during the taxable year. In addition, in the discretion of the Managing

General Partner, Partnership property may be revalued on the addition of additional Limited Partners, or if certain distributions are made to the Partners, to reflect unrealized income, gain, loss or deduction inherent in the Partnership's property for purposes of adjusting the Limited Partner's Capital Accounts.

Each Limited Partner's share of Partnership items of income, gain, loss, and deduction must be taken into account whether or not there is any distributable cash. A Limited Partner's share of Partnership revenues applied to the repayment of loans or the reserve for plugging wells, for example, will be included in its gross income in a manner analogous to an actual distribution of the income to him. Thus, a Limited Partner may have tax liability on taxable income from the Partnership for a particular year in excess of any cash distributions from the Partnership to such Limited Partner with respect to that year. To the extent the Partnership has cash available for distribution, however, it is the Managing General Partner's policy that Partnership distributions will not be less than the Managing General Partner's estimate of the Limited Partners' income tax liability with respect to Partnership income.

If any allocation under the Partnership Agreement is not recognized for federal income tax purposes, each Limited Partner's distributive share of the items subject to that allocation generally will be determined in accordance with its interest in the Partnership, determined by considering relevant facts and circumstances. To the extent deductions allocated by the Partnership Agreement exceed deductions which would be allowed under a reallocation by the IRS a Limited Partner may incur a greater tax burden.

Partnership Borrowings.

The use of Partnership revenues taxable to Partners to repay Partnership borrowings could create income tax liability for the Partners in excess of cash distributions to them, because repayments of principal are not deductible for federal income tax purposes. In addition, interest on the loans will not be deductible unless the loans are bona fide loans that will not be treated as Capital Contributions. Whether a "loan" to the Partnership represents in substance, debt or equity is a question of fact to be determined from all the surrounding facts and circumstances.

Partnership Organization and Syndication Fees.

Expenses connected with the sale of Units in the Partnership are not deductible. Certain organization expenses of the Partnership may be deducted up to an amount of \$5,000. However, such amount will be reduced dollar for dollar to the extent that the expenditures exceed \$50,000, such that if the expenditures are at least \$55,000, no amount may be deducted. Any amount not deducted may be amortized over a period of not less than 180 months.

Certain Organization and Offering Costs will be applied to the payment of certain fees and to compensate the Managing General Partner for its Organization and Offering Cost efforts. Other Organization and Offering Costs will be paid by the Partnership up to certain maximum amounts (See Section XIV (Participation in Costs and Revenues)). Organization and Offering Costs include legal, printing, accounting, postage, and similar expenses related to the offering. Any related deductions, which the Managing General Partner does not anticipate will be material in amount, generally will be allocated to the Partners.

Tax Elections.

The Partnership may elect, under Section 754 of the Code, to adjust the basis of Partnership property on the transfer of a Unit by sale or exchange or on the death of a Partner, and on the distribution of property by the Partnership to a Partner. The general effect of such an election is that transferees of the Units are treated, for purposes of depreciation and gain, as though they had acquired a direct interest in the Partnership assets and the Partnership is treated for these purposes, on certain distributions to Partners, as though it had newly acquired an interest in the Partnership assets and therefore acquired a new cost basis for the assets. Any election, once made, may not be revoked without the consent of the IRS. The Partnership may also make various elections for federal tax reporting purposes that could result in various items of income, gain, loss and deduction being treated differently for tax purposes than for accounting purposes.

Lack of Filing as a Reportable Transaction (Tax Shelter).

Section 6111 of the Code generally requires a material advisor of a “reportable transaction” (tax shelter) to file a statement with the Secretary of the Treasury. For the purposes of these provisions, a “reportable transaction” is generally defined to include transactions which have a potential for tax avoidance or tax evasion.

The Managing General Partner does not believe that the Partnership will be engaged in a “reportable transaction” and does not intend to file the formation of the Partnership with the IRS as a reportable transaction. If it is subsequently determined by the IRS or the courts that the Partnership was required to disclose to the IRS that the Partnership was engaged in a reportable transaction, the Managing General Partner would be subject to certain penalties, including a penalty of \$50,000 for failure to disclose (or \$200,000 in the case of a listed transaction).

Tax Returns and Audits.

In General. The tax treatment of all Partnership items is generally determined at the Partnership, rather than the partner level, and the Partners are generally required to treat Partnership items on their individual returns in a manner that is consistent with the treatment of the Partnership items on the Partnership return. Regulations define “partnership items” for this purpose as including distributive share items that must be allocated among the partners, such as Partnership liabilities, data pertaining to the computation of the depletion allowance, and guaranteed payments.

Generally, the IRS must conduct an administrative determination as to Partnership items at the Partnership level before conducting deficiency proceedings against a Partner, and the Partners must file a request for an administrative determination before filing suit for any credit or refund. The period for assessing tax against a partner attributable to a Partnership item may be extended as to all partners by agreement between the IRS and the Managing General Partner, which will serve as the Partnership’s representative (“**Partnership Representative**”) in all administrative and judicial proceedings conducted at the Partnership level. As the Partnership Representative, the Managing General Partner has the statutory authority to bind all Partners with respect to all actions taken by the Partnership in any administrative or judicial proceeding, such as extensions of the statute of limitations, settlements, and available elections. By executing the Partnership Agreement, each Partner agrees that it will not form or exercise any right as a member of a notice group and will not file a statement notifying the IRS that the Partnership Representative does not have binding settlement authority.

In the event of an audit of the return of the Partnership, the Partnership Representative, pursuant to advice of counsel, will use its best efforts to take all actions necessary, in its discretion, to preserve the rights of the Partners. All expenses of any proceedings undertaken by the Partnership Representative, which might be substantial, will be paid for by the Partnership. The Partnership Representative is not obligated to contest adjustments made by the IRS.

State and Local Taxes.

The Partnership may operate in states and localities that impose a tax on its assets or its income, or on each Partner. Deductions which are available to Partners for federal income tax purposes may not be available for state or local income tax purposes. A Partner's share of the net income or net loss of the Partnership generally must be included in determining its reportable income for state or local tax purposes in the jurisdiction in which it is a resident. To the extent that a non-resident Partner pays tax to a state or municipality because of Partnership operations within that state or municipality, such Partner may be entitled to a deduction or credit against tax owed to its state of residence with respect to the same income. To the extent that the Partnership operates in certain jurisdictions, state or local estate or inheritance taxes may be payable on the death of a Partner in addition to taxes imposed by its own domicile.

Prospective Partners should consult with their own tax advisers concerning the possible effect of various state and local taxes on their personal tax situations.

Non-U.S. Partners.

The Partnership will be required to withhold and pay to the IRS tax at the highest rate under the Code applicable to Partnership income allocable to Partners that are not treated as a United States person for U.S. federal income tax purposes (a “**Non-U.S. Partner**”), even if no cash distributions are made to them. A purchaser of a non-U.S. Partner's Units may be required to withhold a portion of the purchase price, and the Managing General Partner may be required to withhold with respect to taxable distributions of real property to a non-U.S. Partner. These withholding requirements described above do not obviate United States federal income tax return filing requirements for a non-U.S. Partner. In the event of over withholding, a non-U.S. Partner must file a United States federal income tax return to obtain a refund.

PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN TAX ADVISERS CONCERNING THE UNITED STATES FEDERAL, STATE, AND LOCAL INCOME TAX CONSEQUENCES IN THEIR PARTICULAR SITUATIONS OF AN INVESTMENT IN THE PARTNERSHIP AS WELL AS ANY CONSEQUENCES UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.

XVIII. ERISA CONSIDERATIONS

Under ERISA and the Code, any person who exercises any discretionary authority or control over the management or disposition of the assets of a Benefit Plan Investor, or renders investment advice for a fee, directly or indirectly, to the Benefit Plan Investor is a fiduciary (as defined in Section 3(21) of ERISA) with respect to the Benefit Plan Investor (a “**Fiduciary**”). The following section sets forth certain issues and consequences under ERISA, Section 4975 of the Code and the Plan Assets Rules, which a Fiduciary of a Benefit Plan Investor should consider before deciding to invest such Benefit Plan Investor's assets in the Partnership. Furthermore, all potential Limited Partners should read the following disclosure because it describes certain possible limitations on the operation of the Partnership that may result from participation in the Partnership by Benefit Plan Investors. The following summary is not intended to be complete, but only to address certain questions under ERISA, the Code, and the Plan Assets Rules which are likely to be raised by a Fiduciary's own counsel.

The term “Benefit Plan Investor” is defined under the Plan Assets Rules and generally includes (i) “employee benefit plans” (as defined in Section 3(3) of ERISA) that are subject to the fiduciary responsibility provisions of Title I of ERISA, (ii) “plans” (as defined in Section 4975(e)(1) of the Code) that are subject to Section 4975 of the Code, and (iii) entities whose underlying assets are deemed (under the Plan Assets Rules) to include “plan assets” by reason of such an employee benefit plan's or a plan's investment in such entities. For purposes of this Memorandum, where appropriate, the term “Benefit Plan Investor” shall also include governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) that are subject to any federal, state, local, or non-U.S. law or regulation that is substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code (“**Similar Law**”) or which by reason of its investment could cause the assets of the Partnership to be deemed to constitute the assets of such plan.

General Fiduciary Matter.

A Fiduciary should consider the fiduciary standards under ERISA, to the extent applicable, in view of the Benefit Plan Investor's own particular circumstances before authorizing an investment of a portion of such Benefit Plan Investor's assets in the Partnership. In particular, each Fiduciary should consider (i) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA, to the extent applicable, (ii) whether the investment is in accordance with the documents and instruments governing the Benefit Plan Investor as required by Section 404(a)(1)(D) of ERISA, to the extent applicable, and (iii) whether the investment is prudent, considering the nature of the Partnership's proposed activities, and the other risk factors discussed in this Memorandum. If a Fiduciary breaches its responsibilities with regard to a Benefit Plan Investor, the Fiduciary itself may be held liable for losses incurred by the Benefit Plan Investor as a result of such breach.

A Benefit Plan Investor which proposes to invest in the Partnership will be required to represent that it, and any Fiduciaries responsible for such Benefit Plan Investor's investments, are aware of and understand the Partnership's objectives, policies, and strategies, that the decision to invest “plan assets” in the Partnership was made with the appropriate consideration of relevant investment

factors with regard to the Benefit Plan Investor and is consistent with the duties and responsibilities imposed upon Fiduciaries with regard to their investment decisions under ERISA and/or the Code.

The Prohibited Transaction and Plan Assets Rules.

Section 406 of ERISA and Section 4975 of the Code prohibit a Fiduciary from causing a Benefit Plan Investor to engage in certain transactions involving “plan assets” with parties that are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to the Benefit Plan Investor. Certain prospective Benefit Plan Investors may currently maintain relationships with the Managing General Partner or other entities which are affiliated with the Managing General Partner. Each of such persons may be deemed to be a party in interest or disqualified person to and/or a Fiduciary of any Benefit Plan Investor to which it provides investment management, investment advisory, or other services. ERISA prohibits (and the Code penalizes) the use of “plan assets” for the benefit of a party in interest and also prohibits (or penalizes) a Fiduciary from using its position to cause a Benefit Plan Investor to make an investment from which it or certain third parties in which such Fiduciary has an interest would receive a fee or other consideration. Benefit Plan Investors should consult with counsel to determine if participation in the Partnership is a transaction which is prohibited by ERISA and/or the Code. Benefit Plan Investors will be required to represent, warrant, and agree that (i) none of the Managing General Partner or any of its Affiliates or employees has provided any investment recommendation or investment advice within the meaning of Section 3(21) of ERISA to the Benefit Plan Investor, or to any Fiduciary in connection with its decision to invest in the Partnership, and they are not otherwise undertaking to act as a fiduciary, as defined in Section 3(21) of ERISA or Section 4975(e)(3) of the Code, to the Benefit Plan Investor or the Fiduciary in connection with the Benefit Plan Investor’s investment in the Partnership, and (ii) the Fiduciary is exercising its own independent judgment in evaluating the investment in the Partnership. A Limited Partner, including a Benefit Plan Investor, will also be required to represent, warrant, and agree that its investments in the Partnership will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (and, in the case of a governmental, church or non-U.S. plan, that (a) it is not, and will not be, subject to any federal, state, local, or non-U.S. law or regulation that could cause the underlying assets of the Partnership to be treated as assets of the Limited Partner by virtue of its interest and thereby subject the Managing General Partner (or other persons responsible for the investment and operation of the Partnership’s assets) to any Similar Law and (b) its investment in the Partnership will not constitute or result in a violation of any Similar Law).

The Plan Assets Rules provide when the assets of an entity (such as the Partnership) will be deemed to include “plan assets” as a result of an investment therein by Benefit Plan Investors. The Plan Assets Rules generally provide in relevant part that the underlying assets of an entity (that is neither a publicly offered security nor a security issued by a company registered under the Investment Company Act of 1940) in which a Benefit Plan Investor makes an equity investment will be deemed, for the purposes of ERISA, to be assets of the investing Benefit Plan Investor, unless (i) interests in each class of equity interests of the entity held by Benefit Plan Investors are not considered “significant” as determined under the Plan Assets Rules or (ii) the entity qualifies as an “operating company” (as defined in the Plan Assets Rules).

Under the Plan Assets Rules, equity participation in an entity will be considered “significant” on any date if, immediately after the most recent acquisition of any equity interest in the entity, twenty-five percent (25%) or more of the total value of any class of its equity interests is held by Benefit

Plan Investors (calculated after disregarding the value of any equity interests held by non-Benefit Plan Investors (or any Affiliates thereof) who either (i) have discretionary authority or control with respect to the assets of the entity or (ii) provide direct or indirect investment advice to the entity for a fee).

Application of the Prohibited Transaction and Plan Assets Rules to the Partnership.

In order to avoid the Partnership from being treated as holding “plan assets” (within the meaning of the Plan Assets Rules) subject to ERISA, Benefit Plan Investors will only be permitted to invest in the Partnership if such investment does not result in Benefit Plan Investors owning twenty-five percent (25%) or more of the interests in the Partnership.

The Managing General Partner will use commercially reasonable efforts to prevent the assets of the Partnership from being considered “plan assets” (within the meaning of the Plan Assets Rules) subject to ERISA, by limiting the direct and indirect investment in the Partnership by Benefit Plan Investors to a level that would not be considered “significant” (as defined in the Plan Assets Rules).

If at any time the Managing General Partner determines that the assets of the Partnership would be, or there is a substantial risk they could be, considered “plan assets” under the Plan Assets Rules, the Managing General Partner shall be authorized to compulsorily redeem the interests of Benefit Plan Investors to the extent necessary so that the assets of the Partnership would not be, and there is not a substantial risk they could be, considered “plan assets” under the Plan Assets Rules.

In the event the Managing General Partner determines that it is necessary to compulsorily redeem the interests held by Benefit Plan Investors in order to prevent the assets of the Partnership from being considered “plan assets” or being subject to a substantial risk of being considered “plan assets” under the Plan Assets Rules, the Managing General Partner shall redeem the interests of Benefit Plan Investors on a pro rata basis, or such other equitable manner determined by the Managing General Partner in good faith. Additionally, in furtherance of the Managing General Partner’s operation of the Partnership to avoid being treated as holding “plan assets,” the Managing General Partner will have broad authority under the Operating Agreement to effect and restrict transfers, redemptions, and repurchases of interests in the Partnership and limit the Capital Contributions of Benefit Plan Investors to the Partnership.

If the assets of the Partnership were determined to be “plan assets” under the Plan Assets Rules, it could have a number of adverse consequences on the operation of the Partnership and for Limited Partners. In particular, the Managing General Partner and any other party with discretion as to the assets of the Partnership or who provides investment advice for a fee could be characterized as a Fiduciary of investing Benefit Plan Investors (and the Managing General Partner and its Affiliates could be characterized as “parties in interest” and “disqualified persons” under ERISA and the Code with respect to such investing Benefit Plan Investors) and would be subject to the prudence and other fiduciary responsibility standards of ERISA, including the avoidance of “prohibited transactions” under Section 406 of ERISA and Section 4975 of the Code. In such a case, if the Partnership were to engage in a transaction with such a “party interest” or disqualified person” with respect to any Benefit Plan Investor, which transaction is not otherwise exempt under ERISA and the Code (such as borrowing from an entity which is an affiliate of the sponsor of the Benefit Plan Investor or the leasing of property to an affiliate of a sponsor of the Benefit Plan Investor), the transaction would be prohibited under ERISA and the Code (and therefore subject to rescission),

and such affiliate, the Fiduciary of the Benefit Plan Investor, and the Managing General Partner could be subject to sanctions. Moreover, if the Partnership were deemed to hold “plan assets” under the Plan Assets Rules, unless appropriate administrative exemptions were available or obtained, such Partnership could be restricted from acquiring an otherwise desirable investment or from entering into an otherwise favorable transaction if the acquisition or transaction would constitute a non-exempt “prohibited transaction” under ERISA or the Code.

A LIMITED PARTNER, INCLUDING A BENEFIT PLAN INVESTOR AND ITS FIDUCIARY, MUST CONSULT ITS OWN ADVISERS BEFORE INVESTING IN THE PARTNERSHIP AND FULLY INFORM ITSELF AS TO ALL PAYMENTS MADE IN CONNECTION WITH THE OPERATION OF THE PARTNERSHIP. BY INVESTING IN THE PARTNERSHIP, THE LIMITED PARTNER SIGNIFIES ITS INFORMED CONSENT TO ALL SUCH PAYMENTS BY THE PARTNERSHIP TO THE RECIPIENTS THEREOF AND TO THE RISKS INVOLVED IN INVESTING IN THE PARTNERSHIP.

THE FOREGOING STATEMENTS REGARDING THE CONSEQUENCES UNDER ERISA, THE CODE AND THE PLAN ASSETS RULES OF AN INVESTMENT IN THE PARTNERSHIP ARE BASED ON THE PROVISIONS OF ERISA, THE CODE AND THE PLAN ASSETS RULES AS CURRENTLY IN EFFECT AND THE EXISTING ADMINISTRATIVE AND JUDICIAL INTERPRETATIONS THEREUNDER. NO ASSURANCE CAN BE GIVEN THAT ADMINISTRATIVE, JUDICIAL OR LEGISLATIVE CHANGES WILL NOT OCCUR THAT WILL MAKE THE FOREGOING STATEMENTS INCORRECT OR INCOMPLETE.

ACCEPTANCE OF SUBSCRIPTIONS ON BEHALF OF A BENEFIT PLAN INVESTOR IS IN NO RESPECT A REPRESENTATION BY THE MANAGING GENERAL PARTNER OR ANY OTHER PARTY RELATED TO THE PARTNERSHIP THAT THIS INVESTMENT MEETS THE RELEVANT LEGAL REQUIREMENTS WITH RESPECT TO INVESTMENTS BY ANY PARTICULAR BENEFIT PLAN INVESTOR OR THAT THIS INVESTMENT IS APPROPRIATE FOR ANY PARTICULAR BENEFIT PLAN INVESTOR. THE FIDUCIARY WITH INVESTMENT DISCRETION OVER THE ASSETS OF A BENEFIT PLAN INVESTOR SHOULD CONSULT WITH ITS LEGAL AND FINANCIAL ADVISERS AS TO THE PROPRIETY OF AN INVESTMENT IN THE PARTNERSHIP IN LIGHT OF THE CIRCUMSTANCES OF SUCH BENEFIT PLAN INVESTOR.

Benefit Plan Investors that are not subject to the requirements of ERISA or Section 4975 of the Code may be subject to similar rules under other applicable laws or documents and should consult their own legal and financial advisers as to the propriety of an investment in the Partnership.

XIX. DISTRIBUTION RE-INVESTMENT PROGRAM

Participants may elect to have the distributions which they would otherwise receive retained by the Managing General Partner and applied to additional Units or fractional portions of Units through the Distribution Re-investment Program or DRIP. Units purchased through the DRIP will not be subject to payment of the Dealer-Manager Fee, Sales Commission, Due Diligence Fee, Marketing Expense Fee, or the three-tenths of one percent (0.3%) payment to the Managing General Partner for its efforts in organizing the Partnership and the Offering, and accordingly will be purchased at ninety-one and seven-tenths percent (91.7%) of the investment price. Purchases through the DRIP will be made quarterly at the same time as distributions to the Participants. In the discretion of the Managing General Partner, Unit sales through the DRIP may continue beyond the closing of the Partnership Offering. Participants may elect to participate in the DRIP at the time they invest or effective as of the beginning of any upcoming calendar year and those Participants participating in the DRIP may elect to terminate their participation effective at the end of any calendar year, but any such termination will not affect prior Unit purchases through the DRIP by that Participant. When making such DRIP election, Investor must elect to receive any distributions in excess of either zero percent (0%), three percent (3%), six percent (6%), or nine percent (9%), annualized, in the form of DRIP Units. The Managing General Partner may terminate the DRIP if it determines the administration of the DRIP to be uneconomical.

XX. SUMMARY OF PARTNERSHIP AGREEMENT

Note: The rights and obligations of the Managing General Partner and the Limited Partners are governed by the Partnership Agreement, a copy of which is attached as Exhibit A. You should not invest in the Partnership without first thoroughly reviewing the Partnership Agreement. The following is a summary of the material provisions in the Partnership Agreement which are not covered elsewhere in this Memorandum and this summary is qualified in its entirety by reference to the actual text of the Partnership Agreement.

Liability of Limited Partners.

The Partnership will be governed by the Delaware Revised Uniform Limited Partnership Act. If a Limited Partner invests in the Partnership, then generally it will not be liable to third parties for the obligations of the Partnership, subject to the following exceptions:

- if a Limited Partner takes part in the control of the business of the Partnership in addition to the exercise of its rights and powers as a Limited Partner;
- if a Limited Partner fails to make the required Capital Contribution;
- if a Limited Partner fails to fulfill any of the terms or conditions of its Subscription Agreement or otherwise breaches any representation, warranty or agreement in its Subscription Agreement; or
- for a period of two years, if a Partner receives any Capital Contributions “wrongfully” returned to it in violation of the Partnership Agreement or Delaware law to the extent of the Capital Contribution wrongfully returned to it, with interest thereon. This includes, but is not limited to, any distribution to a Partner to the extent that, after giving effect to the distribution, all liabilities of the Partnership exceed Partnership assets.

Amendments.

Amendments to the Partnership Agreement may be proposed in writing by:

- the Managing General Partner and adopted with the consent of a Majority in Interest of Partners; or
- twenty-five percent (25%) in Interest of Partners and adopted by an affirmative vote of sixty-five percent (65%) in Interest of Partners.

The Partnership Agreement may also be amended by the Managing General Partner without the consent of the Partners for certain limited purposes.

Notice.

The following provisions apply regarding notices:

- if given by mail by the Managing General Partner, such notice will be effective three Business Days after such communication is deposited in the mail, even if such notice is not received;
- if given by email or other electronic means, such notice will be effective when the appropriate confirmation of receipt is received or at the time the email enters the receiving party's information processing system; provided that, any receipt of notice given by email after 5:00 p.m. on a Business Day or on a day that is not a Business Day, shall be deemed given on the next Business Day;
- if posted on a password protected website maintained by the Partnership or any of its Affiliates, such notice will be effective on the date a Partner receives notice of such posting and access instructions by email or other electronic means;
- the notice periods are frequently quite short, a minimum of fifteen (15) business days, and apply to matters which may seriously affect the Partners' rights; and
- if a Partner fails to respond in the specified time to the Managing General Partner's request for approval of or concurrence in a proposed action, then such Partner, will conclusively be deemed to have approved the action unless the Partnership Agreement expressly requires such Partner's affirmative approval.

Voting Rights.

At any time, ten percent (10%) in Interest of Partners may call a meeting to vote, or vote without a meeting, on the matters set forth below without the concurrence of the Managing General Partner. On the matters being voted on, a Partner is entitled to one vote per Unit or if a Partner owns a fractional Unit, that fraction of one vote equals to the fractional interest in the Unit. Sixty-five percent (65%) in Interest of Partners may vote to:

- dissolve the Partnership;
- remove the Managing General Partner (in situations involving the bankruptcy or insolvency of the Managing General Partner only requires a Majority in Interest of Partners is required, in all situations the selection of a substitute Managing General Partner requires a Majority in Interest of Partners);
- remove the Operator and elect a new Operator; and
- amend the Partnership Agreement; provided, however, any amendment may not:
 - without the approval of the Participants or the Managing General Partner increase the duties or liabilities of you or the Managing General Partner or increase or decrease the sharing of profit or losses or required Capital Contributions of a Participant or the Managing General Partner; and
 - without the unanimous approval of all Participants in the Partnership affect the classification of Partnership income and loss for federal income tax purposes.

The Managing General Partner, its officers, directors, and Affiliates may also subscribe for Units in the Partnership, and they may vote on all matters including those set forth above.

Generally, Partners will be entitled to vote with respect to all Partnership matters at any time a meeting is called by either:

- the Managing General Partner, or
- Partners owning ten percent (10%) or more of the total Units.

However, the inability of a Partner to obtain a list of the Partners will make it difficult to call a meeting of the investors and for Partners to exercise their right to vote on the matters set forth above.

For matters on which the Limited Partners are entitled to vote, U.S. Energy, as manager of the LLC, will poll the LLC Members as to how they vote and will vote on a pass through basis, the Units attributable to the LLC Members who respond as indicated by such LLC Members.

Access to Records.

Generally, Participants will have access to all records of the Partnership other than an investor list or records governed by contractual or other confidentiality restrictions. However, logs, well reports, and other drilling and operating data, and other records subject to confidentiality obligations of the Managing General Partner or the Partnership, may be kept confidential for reasonable periods of time (such time, with respect to records subject to confidentiality obligations, shall be the term of such confidentiality obligations), and information which is proprietary to the Managing General Partner and not the Partnership will be kept confidential.

Withdrawal of Managing General Partner.

The Managing General Partner will have the right to withdraw as Managing General Partner and sell or otherwise dispose of its entire interest at any time with the consent of a Majority in Interest of Participants. Otherwise, after the 5th anniversary of the later of (i) the Closing Date and (ii) the date the Partnership's primary drilling or investment activities commenced, the Managing General Partner may voluntarily withdraw as Managing General Partner for whatever reason by giving 120 days' written notice to the Participants. Although the withdrawing Managing General Partner is not required to provide a substitute Managing General Partner, a new Managing General Partner may be substituted by the affirmative vote of a Majority in Interest of Partners. If the Managing General Partner would withdraw and the Participants failed to elect to continue the Partnership and to designate a substitute Managing General Partner, then the Partnership would terminate and dissolve. This could result in adverse tax and other consequences.

Also, subject to a required participation of not less than one percent (1.0%) of the Partnership's revenues, the Managing General Partner may partially withdraw a property interest in the Partnership Wells and other assets equal to or less than its revenue interest for whatever reason without the consent of Participants. The Managing General Partner will then have the right to sell or otherwise dispose of its interest.

XXI. SUMMARY OF OPERATING AGREEMENT

The Managing General Partner will serve as the Operator of the Partnership Wells or other assets under the Operating Agreement, the form Operating Agreement is attached as Exhibit A to the Partnership Agreement. The Operator may be replaced at any time on sixty (60) days' advance written notice by the Managing General Partner acting on behalf of the Partnership on the affirmative vote of sixty-five percent (65%) in Interest of Partners (under special circumstances involving the bankruptcy or insolvency of the Operator, only the consent of a Majority in Interest of Partners and thirty (30) days' notice is required).

The Operating Agreement provides a number of material provisions, including, without limitation, those set forth below:

- The Operator's right to assign its rights under the Operating Agreement to a successor Operator subject to the restrictions therein.
- The Operator's indemnification of the Partnership against loss resulting from or caused by the Operator, its employees, agents, contractors, or subcontractors.
- The prescribed insurance coverage shall be carried and maintained by the Managing General Partner for the benefit of the Operator, a pro rata portion of the costs which will be charged back to the Partnership.
- An initial term of ten years with automatic two-year renewal terms unless the Partnership notifies the Operator in writing that it elects not to renew the Operating Agreement.

The foregoing is a summary of the material provisions of the proposed form of Operating Agreement which are not covered elsewhere in this Memorandum. The summary is qualified in its entirety by reference to the form attached as Exhibit A to the Partnership Agreement. You should not subscribe to the Partnership without first thoroughly reviewing the Operating Agreement.

XXII. REPORTS TO INVESTORS

Under the Partnership Agreement the Partnership will provide you and the other Investors the reports set forth below. The cost of all the reports will be paid by the Partnership as Direct Costs.

- Quarterly reports of income and expenses and any other material Partnership activity;
- The information which is required for you to file your federal and state income tax returns as soon as reasonably practicable after the end of each calendar year;
- You and the other Investors will also have access to certain other records of the Partnership, excluding a list of Participants but including financial statements, upon adequate notice, at any reasonable time;
- The Partnership shall have audited financial statements, including a balance sheet and statement of cash flows, prepared by an independent accounting firm for (i) each of the first five fiscal years commencing with the year following the closing of the Offering; and (ii) any additional or subsequent year for which the Managing General Partner, in its sole discretion, determines it to be in the best interest of the Partnership;
- You and the other Investors in the Partnership, in conjunction with the presentment feature, will have access to a reserve report of the Partnership's oil and gas properties. The first such report, stating values on or about January 1, 2030, shall be prepared by an Independent Expert and thereafter will be prepared annually by the Managing General Partner; and
- Commencing with the first full calendar year after the Offering Termination Date, an annual valuation of the LLC Units sufficient to satisfy the reporting requirements for Qualified Entity investors. Such valuation may apply various discounts which may result in the valuation being less than the purchase price of the LLC Units.

XXIII. PRESENTMENT FEATURE

Beginning 24 months after seventy-five percent (75%) or more of all Partnership funds are invested, you and the other Investors may make a written request for the Managing General Partner to repurchase your Units. You are not required to offer your Units to the Managing General Partner, and you may receive a greater return if you retain your Units. Presentment may only be made between January 1 and March 31 of each year and an Investor may not present its Unit(s) more frequently than once per year. The Managing General Partner may immediately suspend its repurchase obligation if it determines, in its sole discretion, that it:

- determines that it does not have sufficient cash flow after taking into account amounts that the Managing General Partner deems prudent or advisable to retain for operational purposes or as reserves; or
- deems it not prudent to borrow funds for this purpose on terms available to the Managing General Partner.

The Managing General Partner will not purchase less than one Unit from an Investor unless the fractional Unit represents its entire interest, nor more than ten percent (10%) of the Units in the Partnership in any calendar year. If fewer than all Units presented at any time are to be purchased, then the Units to be purchased will be selected by lot. The Managing General Partner may not waive the limit on its purchasing more than ten percent (10%) of the Units in a Partnership in any calendar year.

The Managing General Partner may, in its sole discretion, but shall not be required to, have the Partnership acquire Units that are offered for presentment according to the terms of the presentment feature. The combined purchases by the Managing General Partner and the Partnership of Units offered for presentment shall not exceed ten percent (10%) of the Units in the Partnership.

The Managing General Partner's obligation to purchase the Units presented may be discharged for its benefit by a third party or an Affiliate. If you sell your Unit, it will be transferred to the party who pays for it and you will be required to deliver an executed assignment of your Unit along with any other documents that the Managing General Partner requests. In accordance with Treas. Reg. §1.7704-1(f), the repurchase may not be made by the Managing General Partner until 60 calendar days after you notify the Partnership in writing of your intention to exercise the presentment. The repurchase will not be considered effective until a cash payment has been made to you.

The initial reserve report for use in determining the value of your Partnership's oil and natural reserves with respect to the presentment feature shall be prepared by an Independent Expert and thereafter will be prepared annually by the Managing General Partner. The amount attributable to the Partnership's oil and natural gas reserves will be determined based on the most recent reserve report prepared by an independent third party; provided, that it was prepared within twelve months of the valuation date, and otherwise based on the last reserve report prepared by the Managing General Partner. Alternatively, when presenting its Units to the Managing General Partner a Participant may elect to have the valuation based on a new reserve report of the Partnership to be prepared by an Independent Expert at the sole cost of the Participant. Beginning no later than the January that is a minimum of 24 months after at least seventy-five percent (75%) of all Partnership funds are invested, the Managing General Partner will, at its sole option, estimate or cause an

Independent Expert to prepare an estimate of, the present worth of future net revenues attributable to the Partnership's interest in Proved Reserves, if requested. In making this estimate, the Managing General Partner or Independent Expert will use:

- a ten percent (10%) discount rate;
- a constant oil price; and
- base natural gas prices on the existing natural gas contracts at the time of the estimate.

Your presentment will not be considered effective until the following conditions are satisfied:

- you receive the information concerning your interest in the present worth of the Partnership's future net revenues;
- you agree to the presentment price as calculated below; and
- payment has been made to you in cash.

Your presentment price will be your share of the Partnership's net assets (after deduction of Partnership liabilities). The presentment price will include the sum of the following Partnership items attributable to you:

- an amount based on seventy percent (70%) of the present worth of future net revenues from the Proved Reserves, determined as described above;
- cash on hand;
- prepaid expenses and accounts receivable, less a reasonable amount for doubtful accounts; and
- the estimated market value of all assets not separately specified above, determined in accordance with standard industry valuation procedures.

There will be deducted from the foregoing sum the following items attributable to you:

- an amount equal to all debts, obligations, and other liabilities, including accrued expenses; and
- any distributions made to you between the date of the request and the actual payment. However, if any cash distributed was from the sale, after the presentment request, of oil, natural gas, or of a producing property, for purposes of determining the reduction of the presentment price, the distributions will be discounted at the same rate used to take into account the risk factors employed to determine the present worth of the Partnership's Proved Reserves.

The amount may be further adjusted by the Managing General Partner for estimated changes from the date of the reserve report to the date of payment of the presentment price to you because of the following:

- the production or sales of, or additions to, reserves and Lease and well equipment, sale or abandonment of Leases, and similar matters occurring before the presentment request; and
- any of the following occurring before payment of the presentment price to you:
- changes in well or other assets performance;
- increases or decreases in the market price of oil, natural gas, or other Hydrocarbons or produced energy;
- increases or decreases in the market value of other assets owned by the Partnership;
- revision of regulations relating to the importing of Hydrocarbons or other energy-related assets; and
- changes in income, ad valorem, and other tax laws such as material variations in the provisions for depletion and similar matters.

XXIV. TRANSFERABILITY OF UNITS

Restrictions on Transfer Imposed by the Securities Laws, the Tax Laws, and the Partnership Agreement.

Your ability to sell or otherwise transfer your Units is restricted by the securities laws, the tax laws, and the Partnership Agreement as described below.

First, the Units have not been registered under the Securities Act of 1933 or under the securities laws of any state. Instead, the Units are being offered and sold under exemptions from registration under the Securities Act of 1933, including the exemption contained in Section 4(a)(2) of the Securities Act of 1933 and Regulation D. These exemptions impose restrictions on your subsequent transfer of the Units under the securities laws and you will not be able to sell, assign, pledge, hypothecate, or transfer your Units unless there is:

- an effective registration statement covering the Units under the Securities Act of 1933 and qualification under applicable state securities law; or
- unless waived by the Managing General Partner in its sole discretion, an opinion of counsel acceptable to the Managing General Partner that the registration and qualification of the Units are not required.

The Managing General Partner and the Partnership are not obligated to, and do not intend to, register the Units with the SEC for resale.

Second, you will not be able to sell, assign, exchange, or transfer your Units if it would, in the opinion of the Partnership's counsel, result in the following:

- the termination of the Partnership for tax purposes; or
- the Partnership being treated as a "publicly traded" partnership for tax purposes.

Finally, under the Partnership Agreement you may not transfer your Unit unless the Managing General Partner consents, such consent to be granted or withheld in the Managing General Partner's absolute discretion. The Partnership will recognize the assignment of one or more whole Units unless you own less than a whole Unit, in which case your entire fractional interest must be assigned.

Any transfer that is consented to by the Managing General Partner when the assignee of the Unit does not become a substituted Partner as described below will be effective as of

- midnight of the last day of the calendar month in which it is made; or
- at the Managing General Partner's election, 7:00 A.M. of the following day.

Conditions to Becoming a Substitute Partner.

Under the Partnership Agreement, an assignee of a Unit may become a substituted Partner only upon meeting certain further conditions. A substitute Partner is entitled to all of the rights of full ownership of the assigned Units including the right to vote. The conditions to become a substitute Partner are as follows:

- the assignor of the Unit gives the assignee the right;
- the Managing General Partner consents to the substitution;
- in the aggregate, the assignee and the assignor pay all costs and expenses incurred in connection with the substitution; and
- the assignee executes and delivers the instruments as requested by the Managing General Partner to effect the substitution and to confirm his agreement to be bound by all terms of the Partnership Agreement.

The Partnership will amend its records at least once each calendar quarter to effect the substitution of substituted Partners.

XXV. PLAN OF DISTRIBUTION

Commissions.

The Units will be offered on a “best efforts” basis by Westmoreland, which is an Affiliate of the Managing General Partner acting as Dealer-Manager, and by other selected registered broker-dealers, which are members of FINRA, acting as Selling Agents. Best efforts means that the Dealer-Manager and Selling Agents will not guarantee the sale of a certain amount of Units. Also, the Units may be offered and sold by the officers and directors of the Managing General Partner without receiving any Sales Commission or other compensation for the sale of the Units.

To the extent allowed by law, the Dealer-Manager or the Selling Agents will manage and oversee the Offering of the Units as described above, and the Dealer-Manager will generally receive on each Unit sold (except on Units sold through the DRIP):

- a Dealer-Manager Fee of one and one-half percent (1.5%);
- a Sales Commission of up to five and one-half percent (5.5%);
- a Due Diligence Fee of one-half percent (0.5%); and/or
- a Marketing Expense Fee of one-half percent (0.5%).

In addition to the above amounts which will be paid to the Dealer-Manager and/or Selling Agents, the Managing General Partner will receive a three-tenths of one percent (0.3%) payment as compensation for its efforts in organizing the Partnership and the Offering; however, such three-tenths of one percent (0.3%) payment is not payable on Units sold through the DRIP. Other Organization and Offering Costs, once known, will be billed to and paid by the Partnership up to a maximum of one and one-half percent (1.5%) of the Subscription Proceeds if less than \$50,000,000 is raised or one percent (1.0%) of the Subscription Proceeds if \$50,000,000 or more is raised.

All or a portion of the Dealer-Manager Fee, Sales Commission, Due Diligence Fee, and Marketing Expense Fee may be re-allowed to the Selling Agents. The Managing General Partner and/or Dealer-Manager may recoup due diligence fees and disbursements charged to them by a broker-dealer from the Due Diligence Fee that is re-allowed to that broker-dealer and may recoup marketing expense Fees and disbursements charged to them by a broker-dealer from the Marketing Expense Fee that is re-allowed to that broker-dealer. The Managing General Partner may also use the services of one or more wholesalers. All or a portion of the one and one-half percent (1.5%) Dealer-Manager Fee may be re-allowed to the wholesalers for subscriptions obtained through their efforts. The Dealer-Manager will retain any fees and commissions not re-allowed to the Selling Agents.

Notwithstanding the foregoing, the one and one-half percent (1.5%) Dealer-Manager Fee, the Sales Commission of up to five and one-half percent (5.5%), one-half percent (0.5%) Due Diligence Fee, and one-half percent (0.5%) Marketing Expense Fee on subscriptions from broker-dealers who have entered into selling agreements to sell Units in the Partnership, their registered representatives or the Managing General Partner, its officers, directors, and Affiliates, or Investors who purchase Units through officers and directors of the Managing General Partner, will not have to be paid. In

such instances, the Managing General Partner may, but shall not be required to, waive its Organization and Offering Cost payment.

After the minimum Subscriptions of Units are received by the Partnership and the checks have cleared the banking system, the outstanding accrued and unpaid Dealer-Manager Fee, the Sales Commission, the Due Diligence Fee, and the Marketing Expense Fee will be paid to the Dealer-Manager and broker-dealers not less frequently than monthly thereafter until the Offering of the Partnership closes. The three-tenths of one percent (0.3%) Organization and Offering Costs payment to the Managing General Partner will be paid at the same time.

The Managing General Partner may, in its discretion, establish alternative or modified commission arrangements with other broker-dealers and investment advisors. All commissions and fees related to the distribution of the Units are being paid by the Investors as part of their contribution to the Partnership, and the total amount thereof shall not exceed the total of the amounts set forth above.

Indemnification.

The Units are being offered by the Partnership on a private placement basis in reliance upon exemptions from SEC registration, and this Offering is not being underwritten. However, the Dealer-Manager may be deemed an underwriter as that term is defined in the Securities Act of 1933 and the Sales Commission, Dealer-Manager Fee, Due Diligence Fee, and Marketing Expense Fee may be deemed underwriting compensation. Also, the Managing General Partner and the Dealer-Manager have agreed to indemnify each other. It is further anticipated that the Managing General Partner or the Dealer-Manager and each broker/dealer will agree to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933.

Bad Actor Prohibition.

The SEC has adopted a rule which is intended to prohibit certain persons, classified as “Bad Actors”, from participating in the issuance or sale of securities under Rule 506 of Regulation D, which includes the Offering. The rule affects persons who would be compensated for the sale of such securities or who are the issuer, or have a controlling position in an entity which is the issuer, of a security (“**Covered Persons**”). Such Covered Persons are prohibited from participating in the issuance or sale of securities under Rule 506 of Regulation D if they have engaged in a “Disqualifying Event”, as described in the Rule, which effectively classifies them as a “Bad Actor”. The Rule imposes a duty on the issuer, and persons involved in the sale, of securities to ascertain that no “Bad Actors” are involved. U.S. Energy and Westmoreland have accordingly made a determination that no Disqualifying Event has occurred with respect to a Covered Person affiliated with either entity. Additionally, the section of the Subscription Agreement, for participation in the Partnership, which is to be signed by the registered representative who dealt with a proposed Participant, if any, includes a representation that such registered representative would not be classified as a Bad Actor.

Bad Actor Disclosures.

The SEC Rule referenced above further provides that for Covered Persons involved in a Disqualifying Event which would disqualify them from participating in the sale of securities under Rule 506 of Regulation D, such persons may still participate if such events occurred before September 23, 2013, and if such events are disclosed to potential investors. While the selling group

for the Offering has not yet been finalized, the entity identified below has previously participated in the sale of securities sponsored by the Managing General Partner and it is anticipated that they may be part of the selling group for this Offering. Accordingly, the following disclosure is being made:

On January 22, 2013, Thomas Fanning, a registered representative currently affiliated with Concorde Investment Services, LLC, without consenting to or denying the findings, was temporarily suspended, until March 21, 2013, for violations of FINRA/NASD Rules and for actions contrary to his former broker-dealer's written procedures.

XXVI. SALES MATERIAL

The Managing General Partner may use the following sales material in connection with the Offering of the Units:

- a brochure entitled “Investment Summary, U.S. Energy Development Corporation, U.S. Energy Private Capital III LP.”

The Managing General Partner has not authorized the use of other sales material and the offering of Units is made only by means of this Memorandum. The sales materials are not complete, and they are not an offer to sell any of the Units which is made only by this Memorandum.

You should rely only on the information contained in this Memorandum and supplements (if any) in making your investment decision. No one is authorized to provide you with information that is different.

XXVII. LEGAL OPINIONS

Allen Overy Shearman Sterling US LLP, attorneys at law, has issued its opinion to the Managing General Partner regarding the validity and due issuance of the Units and has also issued its opinion on material tax consequences to the Partnership. However, the factual statements in this Memorandum are those of the Managing General Partner, and counsel has not given any opinion with respect to any of the tax or other legal aspects of this Offering except as expressly set forth above.

XXVIII. INDEPENDENT AUDITORS

The financial statements of U.S. Energy Development Corporation as of and for the year ended June 30, 2024, included in this Memorandum have been audited by Grant Thornton LLP, independent auditors as stated in their report appearing herein.

XXIX. LITIGATION

The Managing General Partner knows of no litigation pending or threatened to which the Managing General Partner, the Partnership, or their Affiliates is subject or may be a party, which it believes would have a material adverse effect on the Partnership or its business, and no such proceedings are known to be contemplated by governmental authorities or other parties.

XXX. FINANCIAL INFORMATION CONCERNING THE MANAGING GENERAL PARTNER

The Partnership and the LLC were formed prior to the Offering commencement date and they did not conduct any operating activities prior to the Offering. Financial information concerning the Managing General Partner is provided in this Memorandum.

The securities offered by this Memorandum are not securities of, nor are you acquiring an interest in, the Managing General Partner, its Affiliates, or any other entity other than the Partnership, and, if applicable, the LLC, if you elect to invest.

**U.S. ENERGY DEVELOPMENT CORPORATION
AND SUBSIDIARIES**

**Consolidated Financial Statements and
Report of Independent Certified Public Accountants**

For the years ended June 30, 2024 and 2023

**U.S. Energy Development Corporation
and Subsidiaries**
Consolidated Financial Statements
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
U.S. Energy Development Corporation and Subsidiaries

Opinion

We have audited the consolidated financial statements of U.S. Energy Development Corporation (a New York corporation) and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of June 30, 2024 and 2023, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are issued .

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Oklahoma City, Oklahoma
November 1, 2024

**U.S. Energy Development Corporation
and Subsidiaries**
Consolidated Balance Sheets
June 30, 2024 and June 30, 2023

Assets	<u>2024</u>	<u>2023</u>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 34,248,785	\$ 13,161,144
Accounts receivable, net	79,108,445	21,730,309
Assets held for sale	14,878,713	26,655,894
Notes receivable - related parties, net	13,930,168	1,040,175
Derivative assets	-	359,533
Work in progress	39,821,192	41,807,453
Prepaid expenses	1,897,517	1,166,710
Income tax receivable	5,049,367	267,928
Prepaid well costs	<u>61,137,706</u>	<u>48,385,312</u>
Total current assets	250,071,893	154,574,458
<i>Oil and Gas Properties (successful efforts method)</i>		
Investments in oil and gas partnerships, net of accum. depletion and impairment of \$58,457,230 and \$54,238,390	36,857,337	27,319,857
Proven oil and gas leasehold properties, net of accum. depletion, depreciation, and impairment of \$131,396,288 and \$86,815,080	199,444,134	124,593,308
Unproven leasehold properties	<u>4,980,885</u>	<u>5,873,233</u>
Total oil and gas properties, net	241,282,356	157,786,398
<i>Property and Equipment, net</i> <i>of accumulated depreciation of \$772,382 and \$9,418,293</i>	18,760,014	7,559,063
<i>Equity Fund Investment</i>	7,848,562	8,088,041
<i>Operating lease ROU assets</i>	367,297	843,265
<i>Non-current derivative assets</i>	-	379,495
<i>Other Assets</i>	<u>137,850</u>	<u>123,685</u>
	\$ <u>518,467,972</u>	\$ <u>329,354,405</u>

The accompanying notes are an integral part of these consolidated financial statements.

**U.S. Energy Development Corporation
and Subsidiaries**
Consolidated Balance Sheets
June 30, 2024 and June 30, 2023

Liabilities and Stockholders' Equity	2024	2023
<i>Current Liabilities</i>		
Current portion of long-term debt	\$ 48,950	\$ 49,293
Derivative liabilities	3,089,144	-
Accounts payable	24,049,570	1,673,777
Related party liabilities	31,055,634	79,617,001
Accrued liabilities	42,907,260	44,594,026
Revenue payable	141,328,058	31,533,443
Other liabilities	1,140,248	693,410
Current portion of operating lease liability	165,243	472,912
Deferred income	20,520,866	16,149,708
	264,304,973	174,783,570
<i>Long-term Liabilities</i>		
Long-term debt, less current portion	134,361,830	76,767,028
Non-current derivative liabilities	2,352,384	-
Operating lease liability	217,197	382,440
Deferred income taxes	22,068,751	9,890,955
Asset retirement obligation	7,987,843	7,303,491
	166,988,005	94,343,914
<i>Commitments and Contingencies (Note 16)</i>		
<i>Stockholders' Equity</i>		
Common stock - no par value, 200 shares authorized; 10 shares issued and outstanding	50,000	50,000
Additional paid-in capital	500,000	500,000
Retained earnings	86,624,994	59,676,921
	87,174,994	60,226,921
	\$ 518,467,972	\$ 329,354,405

The accompanying notes are an integral part of these consolidated financial statements.

**U.S. Energy Development Corporation
and Subsidiaries**
Consolidated Statements of Operations
For the twelve months ended June 30, 2024 and June 30, 2023

	2024	2023
Revenues		
Oil, gas, and NGL production, net	\$ 114,768,429	\$ 80,142,355
Drilling services - oil and gas partnerships	18,348,496	11,696,128
Oil and gas partnerships production, net	27,918,854	18,780,152
Well service revenues	837,955	795,153
Partnership management fees	9,291,441	5,535,924
Other	102,947	85,891
Total operating revenues	171,268,122	117,035,603
Operating expenses		
Oil and gas production, management and well services	22,396,913	15,308,832
Production taxes	6,106,438	4,329,149
Depreciation, depletion, and amortization	46,724,685	26,790,348
Impairment of long-lived assets	7,626,345	73,670
General and administrative expenses	26,477,692	16,375,143
Total operating expenses	109,332,073	62,877,142
Income from operations	61,936,049	54,158,461
Other income (expense)		
Interest income	1,378,237	723,612
Interest expense	(8,939,692)	(5,072,115)
Gain on sale of leasehold properties	3,843,173	311,559
Gain on sale of assets	23,500	-
Gain (loss) on derivative instruments, net	(7,975,169)	14,441,937
Other income (expense), net	171,692	1,838,828
Income from equity investment	179,069	1,873,148
Total other income (expense), net	(11,319,190)	14,116,969
Income before provision for income tax expense	50,616,859	68,275,430
Income tax expense	12,058,096	16,007,814
Net income	\$ 38,558,763	\$ 52,267,616

The accompanying notes are an integral part of these consolidated financial statements.

U.S. Energy Development Corporation and Subsidiaries

Consolidated Statement of Changes in Stockholders' Equity For the twelve months ended June 30, 2024 and June 30, 2023

	Common Stock		Additional		Retained		Total
	Number of	Amount	Paid-in	Capital	Earnings		Stockholders'
	Shares						Equity
<i>Balance on June 30, 2022</i>	10	\$ 50,000	\$ 500,000	\$	8,992,168	\$	9,542,168
Distributions	-	-	-		(1,582,863)		(1,582,863)
Net income	-	-	-		52,267,616		52,267,616
<i>Balance on June 30, 2023</i>	10	50,000	500,000		59,676,921		60,226,921
Distributions	-	-	-		(11,610,690)		(11,610,690)
Net income	-	-	-		38,558,763		38,558,763
<i>Balance on June 30, 2024</i>	10	\$ 50,000	\$ 500,000	\$	86,624,994	\$	87,174,994

The accompanying notes are an integral part of these consolidated financial statements.

**U.S. Energy Development Corporation
and Subsidiaries**
Consolidated Statements of Cash Flows
For the twelve months ended June 30, 2024 and June 30, 2023

	2024	2023
<i>Cash flows from operating activities</i>		
Net income	\$ 38,558,763	\$ 52,267,616
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities:		
Depreciation and amortization of property and equipment	393,464	323,895
Depletion expense	45,786,179	26,007,933
Accretion expense	545,042	458,520
Interest expense	551,632	568,087
Bad debt expense	333,532	-
Amortization of deferred financing costs	276,616	221,113
Deferred income taxes	12,177,796	12,524,757
Impairment of long-lived assets	7,626,345	73,670
Gain on sale of leasehold properties	(3,843,174)	(311,559)
Income from equity investment	(179,069)	(1,873,148)
Mark to market (gain) loss on derivatives	6,180,555	(18,947,763)
Change in:		
Accounts receivable, net	(57,711,668)	(1,729,463)
Notes receivable - related party, net	(12,889,993)	(1,040,175)
Work in progress	1,986,261	(36,124,542)
Prepaid expenses	(730,807)	(34,868)
Prepaid well costs	(12,752,394)	(45,451,006)
Other assets	(14,164)	17,129
Accounts payable	22,375,793	(913,631)
Related party liabilities	(48,561,367)	(34,472,981)
Accrued liabilities	(2,235,342)	38,577,716
Revenue payable	109,794,615	27,044,129
Income taxes receivable	(4,781,439)	3,213,501
Deferred income	4,371,158	7,263,818
Other liabilities	446,838	(446,784)
Net cash provided by operating activities	\$ 107,705,172	\$ 27,215,964

The accompanying notes are an integral part of these consolidated financial statements.

**U.S. Energy Development Corporation
and Subsidiaries**
Consolidated Statements of Cash Flows (continued)
For the twelve months ended June 30, 2024 and June 30, 2023

	2024	2023
<i>Cash flows from investing activities</i>		
Purchases of property and equipment	\$ (11,617,915)	\$ (5,626,198)
Proceeds from asset disposal	23,500	-
Proceeds from sale of investment properties	23,111,837	10,876,342
Purchases of partnership units	(121,273)	(2,661,977)
Investments in equity funds	-	(680)
Distributions from equity investments	418,548	-
Return of capital contribution from equity investment	-	20,602
Investments in oil and gas partnerships	(13,890,048)	(9,241,809)
Investments in oil and gas leasehold properties	(130,249,333)	(123,300,458)
Net cash used in investing activities	\$ (132,324,684)	\$ (129,934,178)
<i>Cash flows from financing activities</i>		
Repayments of revolving credit facility	\$ (102,000,000)	\$ (28,225,000)
Borrowings on revolving credit facility	160,000,000	55,225,000
Distributions to shareholders	(11,610,690)	(1,582,863)
Net principal payments of other long-term debt	7,843	(96,282)
Deferred financing costs	(690,000)	(225,000)
Net cash provided by financing activities	\$ 45,707,153	\$ 25,095,855
Net increase (decrease) in cash and cash equivalents	21,087,641	(77,622,359)
<i>Cash and cash equivalents, beginning of period</i>	13,161,144	90,783,503
<i>Cash and cash equivalents, end of period</i>	\$ 34,248,785	\$ 13,161,144
<i>Supplemental disclosure for cash flows information</i>		
Interest paid (net of amounts capitalized)	\$ 7,316,832	\$ 4,460,938
Income taxes paid	2,807,445	24,310
<i>Noncash transactions</i>		
Operating lease ROU assets	\$ (475,968)	\$ 843,265
Operating lease liabilities	475,968	(843,265)
Oil and gas properties	139,310	364,202
Asset retirement obligations	(139,310)	(364,202)

The accompanying notes are an integral part of these consolidated financial statements.

U.S. Energy Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements

1. Nature of Business and Summary of Significant Accounting Policies

Nature of business – U.S. Energy Development Corporation (the “Company”) is engaged primarily in the acquisition, development, production, exploration and sale of crude oil and natural gas. The Company’s primary activities are located in the United States (New York, Pennsylvania, Ohio, Wyoming, West Virginia, Texas, Louisiana, Maryland, Kansas, North Dakota, Oklahoma, Montana, New Mexico, and Colorado) and Ontario, Canada. The Company sponsors and manages tax-advantaged investment partnerships, in which it co-invests to finance the exploration and development of its acreage (the “Partnerships”).

Basis of accounting – The consolidated financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Certain prior period amounts have been adjusted to confirm with current year presentation.

Principles of consolidation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Oilmark and Company, Inc., Steelhead Midstream Partners, LLC, Royalty Exchange Program I, LLC, D1 Real Estate, LLC, and USEDCC OKC, LLC (collectively, the “Company”). In accordance with established practice in the oil and gas industry, the Company includes its pro rata share of assets, liabilities, revenues, and expenses of the investment partnerships in which it has an interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

Management estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liability at the date of the financials, and the reported amounts of revenue and expenses during each reporting period. Management believes its estimates and assumptions are reasonable. Such estimates and assumptions are subject to a number of risks and uncertainties that may cause actual results to differ materially from those estimates.

Significant estimates made in preparing these consolidated financial statements include, among other things, the estimated quantities of proved oil and natural gas reserves used to calculate depletion of oil and natural gas properties, the estimated present value of future net cash flows used in evaluations of impairment and purchase price allocation, accruals related to oil and natural gas sales volume and revenues and capital expenditures. Changes in the assumptions utilized could have a significant impact on reported results in future periods.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – The Company considers all highly liquid cash instruments with original maturities of three months or less to be cash equivalents, primarily consisting of bank time deposits and investments in institutional money market funds. The carrying amounts approximate fair value due to the short-term nature of these items. Cash in bank accounts at times may exceed federally insured limits; however, the Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on such accounts.

Accounts receivable – The Company’s accounts receivable is comprised of invoiced and accrued amounts related to oil and natural gas production that are billed to working interest owners and the Partnerships for their share of operating and capital expenditures on properties the Company and third parties operate. The Company reviews its outstanding accounts receivable balances based on specific facts and circumstances of each outstanding amount and general economic conditions and establishes an allowance for doubtful accounts equal to the estimable portion of accounts receivable for which failure to collect is considered probable. Allowances for doubtful accounts are recorded as reductions to the carrying values of accounts receivable are included in the accompanying consolidated balance sheets and are under “Other expense” on the accompanying consolidated statements of operations.

Employee advances – The Company may advance funds to employees throughout the fiscal year. Employee advances are carried at the estimated net realizable value. Employee advances deemed uncollectable are charged directly to expense. The advances are generally extended on a short-term basis; therefore, these amounts are recognized as current assets. Employee advances are included in “Accounts receivable, net” on the accompanying consolidated balance sheets.

Inventory – Inventory consists of well equipment, drilling parts, and supplies and is valued at the lower of cost or net realizable value, primarily using the first-in, first-out inventory method.

Oil and gas properties – The Company follows the successful efforts method of accounting for its oil, natural gas, and natural gas liquid (“NGL”) properties. Under this method, all costs associated with productive development wells are capitalized while nonproductive exploration costs and geological and geophysical expenditures are expensed as incurred. Net capitalized costs of unproven property and exploration well costs are reclassified as proved property and well costs when related proved reserves are found.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Costs associated with drilling exploratory wells are initially capitalized pending determination of whether the well is economically productive or nonproductive. If an exploration well is unsuccessful in finding proved reserves, the capitalized well costs are charged to exploration expense. The Company does not carry the costs of drilling an exploratory well as an asset in its consolidated balance sheet following the completion of drilling unless both of the following conditions are met:

1. The well has found a sufficient quantity of reserves to justify its completion as a producing well, and
2. The Company is making sufficient progress in assessing the project's reserves and economic and operating viability.

Significant tangible equipment added or replaced that extends the useful or productive life of the property is capitalized. Costs to construct facilities or increase the productive capacity from existing reservoirs are capitalized. Capitalized costs are amortized on a unit-of-production basis over the remaining life of proved developed reserves or total proved reserves, as applicable.

Costs of significant nonproducing properties and exploratory wells in progress of being drilled are excluded from depletion until such time as the related project is completed and proved reserves are established.

Production expenses are those costs incurred by the Company to operate and maintain its crude oil and natural gas properties and associated equipment and facilities. Production expenses include but are not limited to labor costs to operate the Company's properties, repairs and maintenance, certain wastewater disposal costs, utility costs, certain workover-related costs, and materials and supplies utilized in the Company's operations.

The Company allocates a portion of its general and administrative expenses which can be directly attributable to the acquisition and development of proven properties, which amounted to approximately \$0 and \$2,519,000 in each of the years ended June 30, 2024 and 2023.

Depletion of oil and gas properties is computed on the units-of-production method based on the current period's production in relation to the properties' estimated proven developed oil and gas reserves as determined by the Company's management. Cost centers for depletion purposes are determined on a well basis.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

The Company reviews its proved oil and gas properties for impairment, generally on a field-by-field basis, whenever events or changes in circumstances indicate that the carrying amounts of such properties may not be recoverable. If it is determined that a property's estimated future net cash flows will not be sufficient to recover its carrying amount, an impairment charge is recognized to reduce the carrying amount of the asset to its estimated fair value by discounting anticipated future net cash flows. These estimated future cash flows are based on proved reserves and forward market prices for oil and natural gas that existed as of the date of determination. The carrying value of impaired properties is adjusted to an estimated fair value by discounting the estimated expected future cash flows attributable to the properties at a discount rate estimated to be representative of the market for such properties. The excess is charged to expense and may not be reinstated.

For the years ended June 30, 2024 and 2023, the Company recognized approximately \$7,626,000 and \$74,000 of impairment of investments in oil and gas partnerships and proven oil and gas leasehold properties which were defined as Level 3 fair value measurements, respectively.

Unproved oil and natural gas properties are periodically assessed for impairment on a property-by-property basis. The impairment assessment is affected by the results of exploration activities, forecasts of future commodity prices, planned future sales, or expiration of all or a portion of such projects. If the quantity of potential reserves determined by such evaluation is not sufficient to fully recover the cost invested in each property, the Company will recognize an impairment loss at the time such determination is made. For the years ended June 30, 2024, and 2023, the Company did not recognize impairment for unproven leasehold properties, which were defined as Level 3 fair value measurements, respectively.

Upon sales or retirement of properties, the costs and related accumulated depreciation, depletion and amortization are eliminated from the accounts and the resulting gain or loss, if any, is recognized only if there is a significant impact to unit-of-production amortization rate.

Asset retirement obligations – Asset retirement obligations are initially recorded at the estimated present value, at the Company's credit adjusted risk-free rates applicable at the time the well is drilled or acquired, of the amount the Company will incur to plug, abandon, and remediate its producing properties at the end of their useful lives. The Company records the liability, and the offsetting increase to proved property in the period in which it is incurred. For oil and natural gas properties, this is the period in which the property is acquired or a new well is drilled. Periodic accretion is recorded as an expense in the income statement until the obligation is settled or sold, at which time the liability is reversed.

See "Note 15 Asset Retirement Obligations" for additional discussion.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Property and equipment, net— Property and equipment is stated at cost, net of accumulated depreciation. Vehicles, office furniture, office equipment and field equipment are depreciated on the straight-line method over their estimated useful lives which range between three and six years. Service rigs are depreciated on the straight-line method over six years, which represents the life of the capital lease used to acquire the asset. Gathering and Processing systems are depreciated on the straight-line method over their estimated useful lives which range between twenty and thirty-three over six years. Maintenance and repairs are charged to operations as incurred while major renewals and improvements are capitalized.

Work in progress— Work in progress represents development well costs incurred as of June 30, 2024 and 2023 which have not been billed to outside working interest owners or transferred to specific wells.

Prepaid well costs— Prepaid well costs represent amounts paid to operators of certain wells for future costs to be incurred on the Company's behalf. These costs have been classified as current assets as the amounts are expected to be realized within one year of the consolidated balance sheet dates.

Derivatives— The Company uses derivative financial instruments to reduce exposure to commodity price fluctuations. These transactions are primarily in the form of put options, swaps, collars, and three-way collars and are with large financial institutions.

Derivative instruments are recorded at fair value and included in the accompanying Consolidated Balance Sheets as assets or liabilities. The Company has not designated its derivative contracts as hedges for accounting purposes; therefore, all changes in fair value of the contracts and cash settlements are recorded in "Gain (loss) on derivative instruments, net" in the accompanying consolidated statements of operations, respectively. See "Note 5 Derivatives Instruments" for further discussion.

Production taxes— Are statutory amounts deducted from production revenues by various state taxing entities. Depending on the regulations of the states where the production originates, these taxes may be based on a percentage of the realized value or a fixed amount per production unit. The Company incurred production taxes of approximately \$6,106,000 and \$4,329,000 for the years ending June 30, 2024 and 2023, respectively.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Income taxes – Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for consolidated financial statements and income tax purposes. Such differences primarily relate to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes), basis differences between financial statement reporting and income taxes for investments in oil and gas partnerships and leasehold properties, syndication costs and asset retirement obligations. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. The Company has analyzed tax positions taken for filing with the Internal Revenue Service and all state and local jurisdictions where it operates. The Company believes that income tax positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on its financial condition, results of operations or cash flows. Accordingly, the Company has not recorded any reserves, or related accruals for interest and penalties, for uncertain income tax positions as of June 30, 2024 and 2023.

The Company's policy is to classify income tax-related interest and penalties in interest expense and other expenses, respectively.

Environmental – The Company is subject to extensive federal, state, and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of gas, oil, or chemical substances at various sites.

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and when the costs can be reasonably estimated. There were no such material environmental expenditures incurred by the Company during the year ended June 30, 2024.

Advertising – Advertising costs are expensed as incurred. Total advertising costs amounted to approximately \$515,000 and \$412,000 for the years ended June 30, 2024 and 2023, respectively.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Impairment of non-oil and gas long-lived assets – The Company regularly assesses all of its non-oil and gas long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. Fair value is estimated either through independent valuation or as the present value of expected discounted future cash flows. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment is recognized. There were no impairment charges related to non-oil and gas long-lived assets for the years ended June 30, 2024 and 2023.

Syndication costs – Program marketing and offering costs incurred by the Company are capitalized as part of its investment in the limited partnerships and depleted in future periods.

Investments measured at net asset values – As a practical expedient, the Company uses net asset value (“NAV”) as the fair value for certain investments. The inputs to value these investments may include the Company’s capital accounts for its partnership interests in alternative investments, which may be adjusted by using the returns of certain market indices. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information from third-party sources, including independent appraisals.

Fair value of financial instruments – Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standards also establish a framework for measuring fair value and a valuation hierarchy based upon the transparency of the inputs that market participants may use in pricing an asset or liability. Market data obtained from independent sources is an observable input, whereas a company’s own market assumptions are an unobservable input. Classification within the hierarchy is determined based on the lowest level of input that is significant to the measurement in its entirety.

The valuation hierarchy contains three levels:

- Level 1 – Quoted prices (unadjusted) are available for identical assets or liabilities in active markets;
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs or significant value drivers are observable;
- Level 3 – Significant inputs to the valuation model are unobservable.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

The carrying amount of financial instruments pertaining to cash and cash equivalents, accounts/notes receivable, accounts payable, and accrued expenses reported in the accompanying consolidated balance sheets approximates their fair value due to the short-term nature of these instruments. The Company believes that based on the terms of various long-term debt arrangements the carrying values approximate the fair value.

The fair values of the Company's oil derivative instruments are determined primarily on inputs derived from observable data at commonly quoted intervals for the full term of the derivatives and therefore are considered Level 2 in the fair value hierarchy as of June 30, 2024 and 2023, respectively:

The following table summarizes the valuation of financial instruments by pricing levels that were accounted for at fair value as of the period presented on a recurring basis:

Fair value measurements on June 30, 2024, using:				
<u>Description</u>	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Derivative liability				
Swaps	-	(2,339,550)	-	(2,339,550)
Collars	-	(3,101,978)	-	(3,101,978)
Total	\$ -	(5,441,528)	-	(5,441,528)

Fair value measurements on June 30, 2023, using:				
<u>Description</u>	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Derivative asset				
Swaps	-	299,435	-	299,435
Collars	-	439,592	-	439,592
Total	\$ -	739,027	-	739,027

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

As a practical expedient to value certain investments that do not have a readily determinable fair value and have attributes of an investment company, the Company uses NAV as the fair value. The following table lists information regarding all investments that use a fair value measurement to account for both their financial assets and financial liabilities in their calculation of a NAV.

Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Basin Acquisition Fund II	7,848,000	302,000	Not Redeemable	Not Redeemable

Leases – Upon execution, contracts are reviewed to determine whether the arrangement contains a lease. To the extent an arrangement is determined to include a lease, it is classified as either an operating or a finance lease, which dictates the pattern of expense recognition in the income statement. Operating leases are reflected as “Operating lease ROU assets,” “Current operating lease liabilities,” and “Operating lease liabilities” on the consolidated balance sheets. The Company does not have any finance leases.

A right-of-use (“ROU”) asset representing our right to use an underlying asset for the lease term and a lease liability representing our obligation to make lease payments arising from the lease are recognized on the consolidated balance sheets for all leases with a lease term greater than one year. The ROU asset is initially measured as the present value of the lease liability adjusted for any payments made prior to lease commencement, including any initial direct costs incurred and incentives received. Lease liabilities are initially measured at the present value of future minimum lease payments, excluding variable lease payments, over the lease term. Given that the Company’s leases do not provide an implicit rate in the contract, the Company elected the private company practical expedient to utilize the treasury risk-free rate.

The Company recognizes right-of-use assets and lease liabilities on the balance sheet for all leases with lease terms of greater than one year. As the Company’s leases do not provide an implicit rate, the Company used the incremental borrowing rate in determining the present value of lease payments. The Company has elected practical expedients which allows the Company to not capitalize lease assets and liabilities with terms less than 12 months, allows the Company to account for lease and associated non-lease components in a contract as a single lease component, and allows the Company to exclude land easements that existed or expired before the adoption of ASC 842 not previously accounted for as a lease under ASC 840.

See Note 11 — Leases for additional information.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

1. Nature of Business and Summary of Significant Accounting Policies (continued)

Recently adopted accounting standards –

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard changes how entities measure credit losses for most financial assets and other instruments not measured at fair value through net income. The standard replaced the previously required incurred loss approach with a forward-looking expected credit loss model for accounts receivable and other financial instruments measured at amortized cost. For private companies, the standard became effective for interim and annual periods beginning after December 15, 2022. The Company adopted the new standard on July 1, 2023, which had no impact on the Company’s retained earnings.

2. Revenue Recognition and Disclosure Guidance

The recognition of revenues attributable to the Company’s investments in limited partnerships is outside the scope of ASC 606 and is not considered revenue from contracts with customers subject to ASC 606. All other revenue is generally recognized in the period it is earned and collectability is reasonably assured.

Operated crude oil revenues— Sales of oil, natural gas, and NGL are recognized at the point control of the product is transferred to the customer and collectability of the sales price is reasonably assured. Oil is priced on the delivery date based upon prevailing prices published by purchasers with certain adjustments related to oil quality and physical location. Sales are generally recorded on the net amount received.

Operated natural gas and NGL revenues— Sales of natural gas and NGL are recognized at the point control of the product is transferred to the customer and collectability of the sales price is reasonably assured. The price the Company receives for natural gas and NGL is tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, quality and heat content of natural gas, and prevailing supply and demand conditions, so that the price of natural gas fluctuates to remain competitive with other available natural gas supplies. The processor is typically considered the customer in most transactions; therefore, sales are recorded net of all gathering, transportation, and processing fees. In cases where gathering and transportation expenses are incurred prior to transfer of control of the product, the expenses are reported gross.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

2. Revenue Recognition and Disclosure Guidance (continued)

Performance obligations – The Company satisfies the performance obligations under its crude oil, natural gas, and NGL sales contracts upon delivery of its production and related transfer of control to customers. Judgment may be required in determining the point in time when control transfers to customers. Upon delivery of production, the Company has a right to receive consideration from its customers in amounts determined by the sales contracts.

All of the Company's outstanding crude oil sales contracts as of June 30, 2024 are short-term in nature with contract terms of one year or less. For such contracts, the Company has utilized the practical expedient in Accounting Standards Codification ("ASC") 606-10-50-14 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations, if any, if the performance obligation is part of a contract that has an original expected duration of one year or less. The majority of the Company's operated natural gas production is sold at lease locations to midstream customers under multi-year term contracts. For such contracts having a term greater than one year, the Company has utilized the practical expedient in ASC 606-10-50-14A which indicates an entity is not required to disclose the transaction price allocated to remaining performance obligations, if any, if variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under the Company's sales contracts, whether for crude oil or natural gas, each unit of production delivered to a customer represents a separate performance obligation; therefore, future volumes to be delivered are wholly unsatisfied at period-end and disclosure of the transaction price allocated to remaining performance obligations is not applicable.

Non-operated oil, natural gas, and NGL production revenues – The Company's proportionate share of production from non-operated properties is generally marketed at the discretion of the operator. For non-operated properties, the Company receives a net payment from the operator representing its proportionate share of sales proceeds which is net of costs incurred by the operator, if any. Such non-operated revenues are recognized at the net amount of proceeds to be received by the Company during the month in which production occurs and it is probable the Company will collect the consideration it is entitled to receive. Proceeds are generally received by the Company within two to three months after the month in which production occurs.

Trade receivables – The collection of revenues from oil and natural gas production may take 60 days or more following the month of production. The Company records any differences, which are not expected to be significant, between the original estimates and the actual amounts ultimately received in the period they become finalized. On June 30, 2024 and 2023, the Company had trade receivables of approximately \$14,702,000 and \$7,716,300 respectively, which is included in "Accounts receivable, net" on the accompanying consolidated balance sheets. Revenues recognized during the years ended June 30, 2024 and 2023 related to performance obligations satisfied in prior reporting periods were not material.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

2. Revenue Recognition and Disclosure Guidance (continued)

Contract balances — Under the Company's oil, natural gas and NGL sales contracts or activities that give rise to revenues, the Company recognizes revenue after its performance obligations have been satisfied, at which point the Company has an unconditional right to receive payment. Accordingly, the Company's commodity sales contracts generally do not give rise to contract assets or contract liabilities under ASC 606. Instead, the Company's unconditional rights to receive consideration are presented as a receivable within "Accounts receivable, net" in its consolidated balance sheets.

Producer imbalances — The Company recognizes revenues from the sale of oil, natural gas and NGL using the sales method of accounting, whereby revenue is recorded based on the volume sold, regardless of whether the Company has taken its proportional share of volume produced. A receivable or liability is recognized only to the extent that the Company has an imbalance on a specific property greater than the expected remaining proved reserves. There were no material imbalances as of June 30, 2024 or June 30, 2023.

Management and administrative services — The Company provides management and administrative services to the Partnerships in exchange for a fee. The fees are recognized over time as the services are rendered. The fees are determined monthly and are calculated by one of two methods as prescribed in each partnership's limited partnership agreement. In one method, the fees are calculated based on a rate of \$50 to \$500 per well held by the partnership at the end of the calculation period. In the other method, the fees are calculated based on a per annum rate of 0.75% of the net subscriptions of the partnership for the first three years following its commencement. After the first three years following commencement, the fees are then calculated based on a per annum rate of 0.50% of the most recent PV-10 value of the partnership's oil and gas assets. The Company utilized the practical expedient in ASC 606 which states the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under its service agreements, services are provided over time during the period of the performance obligation; therefore, promised services for future periods are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required if the remaining performance obligation, if any, is part of a contract that has an original expected duration of one year or less.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

2. Revenue Recognition and Disclosure Guidance (continued)

Drilling services – The Company has agreements with the Partnerships where the Company will drill or cause to drill wells on the Partnerships’ leases in exchange for a fee. The fee is typically structured as a cost-plus arrangement based on the total estimated costs of the well to be drilled. The underlying partnership agreements provide either for turnkey wells at fixed prices or a cost-plus arrangement to the various oil and gas limited partnerships. Revenue is recognized as costs are incurred for each well until the performance obligation is satisfied when the well is completed. The fee charged for drilling services is received in advance and is recorded as deferred income until the performance obligation is satisfied. Changes in job performance, job conditions and estimated profitability on uncompleted contracts may result in revisions to costs and income. In situations where costs exceed the original cost estimates and the limited partnership does not have available to cash to pay the excess of costs and service fees, the Company may receive a portion of working interest in the well at a value equivalent to the cash consideration that would have been received.

Deferred income from drilling services amounted to approximately \$0 and \$4,582,000 on June 30, 2024 and 2023, respectively.

Well supervision services – The Company provides well supervision services to the Partnerships in exchange for a fee. The fees are recognized over time as the services are rendered. The fees are determined monthly and are calculated based on rates as prescribed in the partnership agreement. For wells operated by the Company, it charges a competitive rate comparable to rates being charged by other oil and gas operators in the same geographic area. For non-operated wells, the Company charges rates ranging between \$50 to \$500 per well held by the partnership at the end of the calculation period. The Company has utilized the practical expedient in ASC 606 which states the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under its service agreements, services are provided over time during the period of the performance obligation; therefore, promised services for future periods are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required if the remaining performance obligation, if any, is part of a contract that has an original expected duration of one year or less.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

2. Revenue Recognition and Disclosure Guidance (continued)

Disaggregation of oil and gas production sales and service revenues — The following table presents the disaggregation of the Company's operating income from oil and natural gas sales and the well service revenues for the years presented below.

	Year Ended June 30, 2024	Year Ended June 30, 2023
Oil sales, net	\$ 91,676,253	\$ 51,651,501
Natural gas sales, net	14,434,389	21,067,483
NGL sales, net	8,657,787	7,423,371
Oil, gas, and NGL production revenues	\$ 114,768,429	\$ 80,142,355
Administrative services	\$ 433,310	\$ 414,282
Well supervision services	404,645	380,871
Well services revenue	\$ 837,955	\$ 795,153

3. Property, Plant, and Equipment, net

Property, plant, and equipment are recorded at cost, less accumulated depreciation. Repairs and maintenance costs are expensed when incurred. Property, plant, and equipment consisted of the following on June 30:

	2024	2023
Office furniture and equipment	\$ 480,751	\$ 1,215,192
Vehicles	547,973	667,628
Field equipment	-	509,515
Service rigs	-	707,797
Leasehold improvements	133,703	133,703
Buildings	16,861,092	5,562,941
Processing Plant	754,486	754,486
Gathering systems	754,391	7,426,094
	19,532,396	16,977,356
Less accumulated depreciation	(772,382)	(9,418,293)
Property, plant, and equipment, net	\$ 18,760,014	\$ 7,559,063

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

3. Property, Plant, and Equipment, net (continued)

Depreciation expense totaled approximately \$393,000 and \$324,000 for the years ended June 30, 2024 and 2023, respectively. Depreciation expense is recorded using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful lives of the real assets or the period of the lease, whichever is shorter. The estimated useful lives of the assets range from three to thirty-three years, depending on the type of asset.

4. Notes Receivable

During the years ended June 30, 2024 and 2023, the Company had notes receivable from related parties with carrying values of approximately \$13,930,168 and \$1,040,175, respectively. Notes receivable are evaluated and amended as needed and are charged interest with rates of up to 5% at the discretion of the Company. Allowances for doubtful notes receivable are recorded as reductions to the carrying values of notes receivable included in the accompanying consolidated balance sheets and are recognized within “Other income (expenses), net” on the accompanying consolidated statements of operations. Total allowances for uncollectible notes for the years ended June 30, 2024 and 2023 were approximately \$5,245,000 and \$11,860,000, respectively. For the years ending June 30, 2024, and 2023, approximately \$1,787,000 and \$965,000, respectively, of uncollectable notes were recovered, and a gain was recognized in “Other income (expense), net” on the accompanying consolidated statements of operations.

The notes are due to the earlier of resumption of distributions or termination of the Partnership, as such the notes have been recognized by the Company as current assets.

5. Derivative Instruments

The Company uses derivative instruments to manage its exposure to commodity price risk. From time to time, such instruments may include variable-to-fixed-price swaps, costless collars, and other contractual arrangements. The Company records all derivative instruments at fair value within the accompanying balance sheets. For further discussion, see Note 1 - Fair Value Measurements.

As of June 30, 2024, the Company’s open oil and natural gas derivative instruments consisted of swaps and costless collar contracts, where the Company enters in a contract with a specified floor and ceiling price of a commodity and a future settlement date with a counterparty. The Company has elected not to designate its derivative instruments as cash flow hedging instruments; therefore, the changes in fair value are recognized each period in earnings as a component of revenues. The contracts are placed with a major financial institution or with counterparties that management believes to be of high credit quality. The following table summarizes the fair value and location of each classification of the derivative instruments recorded in the balance sheet for the period presented on a gross basis and after same counterparty netting.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

5. Derivative Instruments (continued)

The Company's open derivative instruments as of June 30, 2024 are as follows:

Period	Oil Collars		
	Volume (Bbls)	Weighted Average Price (\$/Bbl)	Weighted Average Price (\$/Bbl)
		Floor	Ceiling
July - December 2024	664,209	\$ 62.81	\$ 84.49
January – June 2025	418,854	\$ 62.85	\$ 79.92
July - December 2025	276,000	\$ 62.00	\$ 79.96
January – June 2026	249,912	\$ 61.63	\$ 74.65
July - December 2026	164,852	\$ 62.51	\$ 73.72
January – June 2027	97,592	\$ 60.00	\$ 72.47

Period	Oil Swaps	
	Volume (Bbls)	Weighted Average Price (\$/Bbl)
July - December 2024	240,100	\$ 75.49
January – June 2025	244,350	\$ 71.54
July - December 2025	248,400	\$ 71.54
January – June 2026	99,550	\$ 70.43
July - December 2026	101,200	\$ 70.43

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

5. Derivative Instruments (continued)

Period	Gas Collars		
	Volume (Bbls)	Weighted Average Price (\$/Bbl)	Weighted Average Price (\$/MMBtu)
		Floor	Ceiling
July - December 2024	1,832,831	\$ 3.15	\$ 4.20
January – June 2025	1,482,251	\$ 3.24	\$ 4.28
July - December 2025	1,005,134	\$ 3.15	\$ 4.20
January – June 2026	785,267	\$ 3.15	\$ 4.20
July - December 2026	621,770	\$ 3.15	\$ 4.20
January – June 2027	427,144	\$ 3.15	\$ 4.20

Period	Gas Swaps	
	Volume (Bbls)	Weighted Average Price (\$/Bbl)
July - December 2024	66,131	\$ 3.40
January – June 2025	47,854	\$ 3.40
July - December 2025	36,291	\$ 3.40
January – June 2026	28,383	\$ 3.40
July - December 2026	22,473	\$ 3.40
January – June 2027	15,439	\$ 3.40

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

5. Derivative Instruments (continued)

The following tables summarize the fair value and location of each classification of the derivative instruments recorded in the balance sheet as Derivative assets, Non-current derivative assets, Derivative liabilities, and Non-current derivative liabilities for the period presented on a gross basis and after the same counterparty netting.

June 30, 2024			
Balance Sheet Classification	Gross Fair Value	Amounts Netted in Balance Sheet	Net Fair Value Presented in Balance Sheet
Derivative contracts			
Current derivative asset	\$ 3,629,147	\$ (3,629,147)	\$ -
Current derivative liability	(6,718,291)	3,629,147	(3,089,144)
Non-current derivative asset	7,486,112	(7,486,112)	-
Non-current derivative liability	(9,838,496)	7,486,112	(2,352,384)
Total derivative contracts	<u>\$ (5,441,528)</u>	<u>\$ -</u>	<u>\$ (5,441,528)</u>

June 30, 2023			
Balance Sheet Classification	Gross Fair Value	Amounts Netted in Balance Sheet	Net Fair Value Presented in Balance Sheet
Derivative contracts			
Current derivative asset	\$ 1,400,537	\$ (1,041,005)	\$ 359,532
Current derivative liability	(1,041,005)	1,041,005	-
Non-current derivative asset	889,683	(510,188)	379,495
Non-current derivative liability	(510,188)	510,188	-
Total derivative contracts	<u>\$ 739,027</u>	<u>\$ -</u>	<u>\$ 739,027</u>

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

5. Derivative Instruments (continued)

The following table summarizes gains and losses relating to oil and gas derivatives reflected in the statements of operations for the periods presented.

	Year Ended June 30, 2024	Year Ended June 30, 2023
Non-cash gain (loss) on derivatives	\$ (6,180,555)	\$ 18,947,762
Cash paid on derivatives, net	(1,794,614)	(4,505,825)
Total gain (loss) on derivative instruments, net	<u>\$ (7,975,169)</u>	<u>\$ 14,441,937</u>

6. Investments in Oil and Gas Properties, net

The Company has investments in joint ventures that own oil and gas properties and gathering systems located in New York, Pennsylvania, Ohio, Wyoming, West Virginia, Texas, Louisiana, Maryland, Kansas, North Dakota, Oklahoma, Montana, New Mexico, Colorado, and Ontario, Canada. It also owns general and limited partnership interests in oil and gas partnerships it sponsored to the public. Ownership interest varies with each partnership. The Company also acquires, explores, and operates oil and gas properties for its own account.

A summary of proved oil and gas leasehold properties is presented as follows:

	June 30, 2024	2023
Proved oil and gas leasehold properties:		
Leasehold costs	\$ 88,232,690	\$ 81,082,480
Lease and well equipment	71,931,779	42,788,775
Intangible costs	160,828,667	77,286,978
Other	9,847,286	10,250,125
	<u>330,840,422</u>	<u>211,408,358</u>
Accumulated depletion, depreciation, and impairment	<u>(131,396,288)</u>	<u>(86,815,050)</u>
Proved oil and gas leasehold properties, net	<u>\$ 199,444,134</u>	<u>\$ 124,593,308</u>

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

6. Investments in Oil and Gas Properties, net (continued)

Depletion of oil and gas properties charged to expense amounted to approximately \$40,888,000 and \$22,578,000 for the years ended June 30, 2024 and 2023, respectively.

Depletion of investments in oil and gas partnerships charged to expense amounted to approximately \$4,900,000 and \$3,430,000 for the years ended June 30, 2024 and 2023, respectively.

The Company recognized a net gain on sales of its investment in oil and gas properties to third parties of approximately \$3,843,000 and \$312,000 for the years ending June 30, 2024 and 2023, respectively.

The Company serves as a general partner and has full and exclusive discretion in the management of the oil and gas limited partnerships. The oil and gas limited partnership agreements generally provide that the limited partners pay 100% of the intangible drilling costs and, in certain partnerships, up to 100% of the well equipment and leases as well as a portion of the organizational and offering costs.

In certain partnerships, the Company may contribute up to 100% of well equipment, leases, organizational and offering costs. In current partnerships the Company may contribute up to 4% of total capital raised, for syndication, organizational and offering costs. The Company receives a percentage interest in the limited partnerships of between 5% – 35% and charges a set monthly administrative and well service fee ranging from actual to \$50 - \$500 per well.

Subordination – On a partnership-by-partnership basis, the Company may be required to subordinate its net partnership revenue to its investor partners' cash distributions from the partnership equal to at least 1% per month of the respective subscriptions determined on a cumulative basis, in accordance with the terms of the partnership agreement, for a maximum of 5 years. The Company may also benefit from the recovery of prior amounts paid. There were no such recoveries for the years ended June 30, 2024 and 2023. The amount subordinated for the years ended June 30, 2024 and 2023 totaled approximately \$772,000 and \$1,698,000, respectively, which represents 0.36% and 1.2% of oil and gas partnerships gross production revenue, respectively. This potential adjustment is subject to commodity prices, volumes, well counts and timing.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

7. Long-term Debt

Revolving credit facility— On March 11, 2020, the Company engaged in a revolving credit facility agreement with Washington Federal Bank, National Association (“WAFD”). The initial borrowing base was \$30,000,000 with a maximum commitment of \$50,000,000. The borrowing base will be redetermined approximately every six months until the termination date. The borrowing rate will either increase or decrease depending on the determinations made by the bank, as stated in the credit facility. The applicable per annum contract rate (“Rate”) is the WAFD applicable prime rate (“Prime Rate”) plus 0.25%.

On November 15, 2021, an amendment was made to increase the maximum commitment to \$75,000,000. On March 31, 2022, a second amendment was made to extend the termination date to March 31, 2025. On December 28, 2022, a third amendment was made to increase the maximum commitment to \$100,000,000. On May 17, 2024, a fourth amendment was made to extend the termination date to March 31, 2028. On June 5, 2024, a fifth amendment was made to provide a guidance line of up to \$40,000,000 with a March 31, 2028 termination date. The Rate for the guidance line is the Prime Rate plus 1.25% for one hundred twenty days following the initial draw. After that, the Rate is the Prime Rate plus 4.25%.

The credit facility contains financial covenants, which include a maximum leverage ratio, a minimum coverage ratio, and a minimum current ratio beginning the quarter ended March 31, 2020, as defined. On June 30, 2024, the Company was in compliance with all covenants.

Equipment financing— The Company periodically purchases equipment through financing agreements with third-party lenders. Such financing leases are due in various monthly installments ranging from \$1,289 to \$1,444, including interest at rates from 4.4% to 10.7% and expiring between January 2025 and July 2028.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

7. Long-term Debt (continued)

Long-term debt consisted of the following on June 30, 2024 and 2023:

	2024		2023
	<u> </u>		<u> </u>
Revolving credit facility	\$ 135,000,000	\$	77,000,000
Equipment financing	157,791		149,948
Long-term debt	<u>135,157,791</u>		<u>77,149,948</u>
Unamortized deferred financing costs	(747,011)		(333,627)
Less current maturities	<u>(48,950)</u>		<u>(49,293)</u>
Long-term debt, net	\$ <u><u>134,361,830</u></u>	\$	<u><u>76,767,028</u></u>

Future maturities of long-term debt (excluding unamortized deferred financing costs) are as follows:

Year ending June 30,		
2025	\$	48,950
2026		43,188
2027		35,051
2028		29,170
Thereafter		135,001,432
		<u> </u>
Future maturities of long-term debt	\$	<u><u>135,157,791</u></u>

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

8. Related Party Transactions

As General Partner, the Company has elected to pay Partnership expenses in excess of revenue. These amounts are reflected in Notes Receivable-related parties and bear interest at the Company's discretion up to 5.0%. For the years ended June 30, 2024 and 2023, the Company elected not to charge interest on the Partnership balances. The Partnerships are required to repay these amounts from future revenues as required under the applicable agreements with each partnership. The notes are due before the resumption of distributions or at the termination of the Partnership; as such, the notes have been recognized by the Company as current assets.

The Company loaned \$12,160,000 at no interest to D1 Real Estate Springfield LLC, a sister company, during the year ending June 30, 2024. The loan is to be repaid within the next twelve months.

For certain partnerships, the Company, as General Partner, has outstanding obligations for the drilling and completion of certain wells of approximately \$31,056,000 and \$79,617,000 as of June 30, 2024 and 2023, respectively, which are reflected in "Related party liabilities" on the consolidated balance sheets.

For certain Partnerships under the terms of their respective agreements with the Company, the Company, as General Partner, sells acreage to the partnerships in order to fulfill the partnerships' drilling obligations. The acreage is generally sold at the greater of cost or fair market value.

The Company recognized revenue from drilling services rendered to certain partnerships of approximately \$18,348,000 and \$11,696,000 for the years ended June 30, 2024 and 2023, respectively. These revenues are reflected in "Drilling services – oil and gas partnerships" on the consolidated statements of operations.

The Company recognized revenue from certain partnerships for reimbursement of well services and administrative expenses of approximately \$433,000 and \$414,000 for the years ended June 30, 2024 and 2023, respectively. These revenues are reflected in "Well services revenues" on the consolidated statements of operations.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

8. Related Party Transactions (continued)

Westmoreland Capital (“Westmoreland”) is an affiliate of the Company through common ownership. Westmoreland may receive from the Company a 3% dealer-management fee and a 9% combined sales commission fee and due diligence fee for each limited partnership unit sold of which the Company is the General Partner, as defined in the partnerships’ private placement memorandum. The Company capitalizes these fees paid to Westmoreland as syndication costs. Total fees paid to Westmoreland was approximately \$7,761,000 and \$5,264,000 for the year ended June 30, 2024 and 2023, respectively.

For the years ended June 30, 2024 and 2023, the Company declared and paid equity distributions to its stockholders of \$11,611,000 and \$1,583,000, respectively.

9. Accrued Liabilities

Accrued liabilities consisted of the following on June 30:

	2024	2023
Vendor purchases	\$ 39,209,801	\$ 42,395,618
Payroll	509,200	443,649
Lease operating expenses	3,170,157	1,716,440
Other	18,102	38,319
Accrued liabilities	\$ 42,907,260	\$ 44,594,026

10. Other Liabilities

When the Company assumes the title of operator of oil and gas properties from prior operators, the Company also assumes the undistributed funds and the related liability to distribute these funds appropriately. This liability is recognized in other liabilities on the accompanying consolidated balance sheets.

11. Leases

The Company adopted Accounting Standards Codification Topic 842, *Leases*, (“ASC 842”) for the annual period beginning July 1, 2022. The Company elected the package of practical expedients at transition that allowed the Company not to reassess the following at the transition date: (i) whether any expired or existing contracts are or contain leases; (ii) lease classification for any expired or existing leases; and (iii) whether unamortized initial direct costs for existing leases meet the definition of initial direct costs under the new guidance.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

11. Leases (continued)

The Company has operating leases for corporate offices and field offices.

The Company's Arlington office lease has a term of 69 months. The Buffalo office lease has an initial term of 60 months and includes a renewal option of 60 months. The Company does not include the renewal option for the Buffalo office lease in the lease term, as it is not reasonably certain such option will be exercised. Payments are for fixed amounts as contractually designated in the lease agreements.

The Company's Pecos field office lease has a term of 36 months. The Ironwood field office lease has a term of 24 months. Payments are for fixed amounts as contractually designated in the lease agreements.

The table below presents the lease-related assets and liabilities recorded on our consolidated balance sheets as of June 30.

	2024	2023
Assets		
Operating lease ROU assets	\$ 367,297	\$ 843,265
Total lease assets	<u>367,297</u>	<u>843,265</u>
Liabilities		
Current - Operating lease liabilities	165,243	472,912
Noncurrent - Operating lease liabilities	217,197	382,440
Total lease liabilities	<u>\$ 382,440</u>	<u>\$ 855,352</u>

The table below presents the components of the Company's lease costs as of June 30.

	2024	2023
Operating lease expense, excl short-term leases ⁽¹⁾⁽²⁾	\$ 496,400	\$ 491,400

(1) Operating lease expense reflects a single lease cost, calculated so that the lease cost is allocated over the lease term on a straight-line basis.

(2) Short-term and variable lease expenses are not disclosed as these amounts are immaterial to the Company's overall financial position.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

11. Leases (continued)

A maturity analysis of lease payments under the Company's long-term operating leases is presented as follows:

Fiscal Year		
2025	\$	176,721
2026		99,120
2027		102,830
2028		25,900
Thereafter		-
Total future minimum lease payments (undiscounted)		404,571
Less: imputed interest		(22,131)
Present value of lease liability	\$	<u>382,440</u>

The table below presents the weighted average remaining lease terms and discount rates for the Company's long-term operating leases:

	As of June 30, 2024
Weighted average remaining lease term - operating leases (in years)	<u>2.66</u>
Weighted-average discount rate - operating leases	3.90%

The table below presents other supplemental lease information about the Company's operating leases for the periods presented:

	For the year June 30, 2024
Operating cash outflows from operating leases	\$ 496,393
Right-of-use assets obtained in exchange for new operating lease liabilities	-

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

12. Income Taxes

The provision for income taxes consisted of the following for the years ended June 30, 2024 and 2023:

	<u>2024</u>		<u>2023</u>
Current:			
Federal	\$ (680,735)	\$	3,375,419
State	<u>561,036</u>		<u>107,638</u>
Current provision	(119,699)		3,483,057
Deferred	13,265,678		13,234,624
Change in valuation allowance	<u>(1,087,883)</u>		<u>(709,867)</u>
Income tax expense	\$ <u>12,058,096</u>	\$	<u>16,007,814</u>

Income tax expense differs from the statutory rate applied to pre-tax income mainly due to state and local taxes and a increase in the valuation allowance.

The Company currently capitalizes and depletes certain syndication and marketing costs related to its oil and gas investments for financial reporting purposes. Ultimately, these costs will be realized as a capital loss for tax purposes upon liquidation of the oil and gas investments. At this time, the Company does not believe that it is more likely than not that it will be able to utilize this deferred tax asset. As a result, the Company has recorded a valuation allowance against this deferred tax asset to the amount that management believes is more likely than not to be recognized.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and local jurisdictions. The Company believes it is no longer subject to federal income tax examinations for tax years prior to 2020.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

12. Income Taxes (continued)

The significant components of deferred tax assets and liabilities as of June 30, 2024 and 2023 are as follows:

	2024	2023
Deferred tax assets:		
Asset retirement obligations	\$ 1,326,536	\$ 1,189,807
Syndication costs	12,452,037	11,364,095
Investments in oil and gas partnerships	-	1,768,619
Net operating loss	1,426,876	17,698
Unrealized hedging	1,272,236	-
Other	1,484,859	-
Total deferred tax assets	17,962,544	14,340,219
Deferred tax liabilities:		
Property and equipment	557,749	3,648,942
Oil and gas properties	26,842,788	8,646,774
Unrealized Hedging	-	98,983
Investments in oil and gas partnerships	178,721	
Other	-	472,321
Total deferred tax liabilities	27,579,258	12,867,020
Valuation allowance	(12,452,037)	(11,364,154)
Net deferred tax assets (liabilities)	\$ (22,068,751)	\$ (9,890,955)

At June 30, 2024 and 2023, the Company had a gross federal net operating loss carryforward of approximately \$3,351,965 and \$0, respectively. The Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law on March 27, 2020 provides that net operating losses arising in tax years beginning after December 31, 2017, and before January 1, 2021, can be carried back five years, and the 80% taxable income limit does not apply to tax years beginning before January 1, 2021. At June 30, 2024 and 2023, the Company had net state net operating loss carryforwards of approximately \$722,963 and \$17,689, respectively.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

13. Employee Benefit Plan

The Company has a qualified defined contribution plan under Internal Revenue Code Section 401(k) for all eligible employees. Effective January 1, 2015, the Company contributed 3% of an employee's eligible compensation. Company contributions totaled approximately \$331,000 and \$329,000 for the years ended June 30, 2024 and 2023, respectively.

14. Concentrations

The Company maintains its cash accounts at several banks where the balance may exceed the Federal Deposit Insurance Corporation's ("FDIC") insured limits; however, the Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on such accounts.

The Company sells natural gas, crude oil, and NGLs under contracts to various purchasers in the normal course of business. For the year ending June 30, 2024, two purchasers purchased the majority of the Company's combined natural gas, crude oil, and NGL production. Permian Deep Rock and Anadarko E&P Onshore LLC purchased approximately 21% and 16% of the Company's total production, respectively. No other purchaser accounted for more than 10% of purchases for the year ended June 30, 2024. For the year ending June 30, 2023, two purchasers purchased the majority of the Company's combined natural gas, crude oil, and NGL production. Anadarko E&P Onshore LLC and Shell Trading (US) Company purchased approximately 16% and 14% of the Company's total production, respectively. No other purchaser accounted for more than 10% of purchases for the year ended June 30, 2023.

For the year ended June 30, 2024 and 2023, no purchases from vendors were considered a significant concentration.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

15. Asset Retirement Obligations

The Company recognizes an estimated liability for the plugging and abandonment of its gas and oil wells. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company also considers the estimated salvage value in the calculation of depreciation, depletion, and amortization.

The estimated liability is based on the Company's historical experience in plugging and abandoning wells, estimated remaining lives of those wells based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future, and federal and state regulatory requirements. The liability was discounted using an assumed credit-adjusted risk-free interest rate. The Company measures its asset retirement obligation fair value using Level 3 inputs in its assumptions. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs or remaining lives of the wells, or if federal or state regulators enact new plugging and abandonment requirements.

A summary of the Company's asset retirement obligations as of June 30, 2024 and 2023 is as follows:

	2024	2023
<i>Balance, July 1,</i>	\$ 7,303,491	\$ 6,480,769
Plug & Abandonment	(141,839)	(145,842)
Removal due to sale	(281,488)	-
Liabilities incurred	562,638	510,044
Accretion of discount	545,041	458,520
<i>Balance, June 30,</i>	<u>\$ 7,987,843</u>	<u>\$ 7,303,491</u>

16. Contingencies

Litigation— The Company is subject to extensive federal, state, and local environmental laws and regulations. These laws, which are frequently changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that related to an existing condition caused by past operations and that have no future economic benefits are expensed.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

16. Contingencies (continued)

The Company, from time to time, may be involved in litigation that is incidental to business. Currently, management does not believe that there are any matters outstanding that would have a material adverse effect on the Company's financial position or results of operations.

Environmental matters – As the Company is directly involved in the extraction and use of natural resources, it is subject to various federal, state, and local provisions regarding environmental and ecological matters. The Company does not believe the existence of current environmental laws or interpretations thereof will materially hinder or adversely affect the Company's business operations; however, there can be no assurances of future effects on the Company of new laws or interpretations thereof. As of June 30, 2024, the Company does not have any environmental remediation liabilities that require an accrual.

17. Acquisitions and Divestitures

Acquisitions of proved and unproved oil and natural gas properties and working interests are considered business combinations and are recorded at their estimated fair values as of the acquisition date.

The Company entered into multiple agreements dated from July 2023 to June 2024 to purchase interests in proved properties located in Texas by paying a carried capital working interest as consideration. The Company subsequently transferred approximately 80% to 90% of interest in the proved properties and assets among its affiliated partnerships. No gain or loss was recognized on the subsequent transfer.

On May 31, 2024, the Company purchased unproven leasehold located in Texas and New Mexico for approximately \$1,767,000.

The Company entered into multiple agreements dated from December 2023 to May 2024 to purchase mineral rights throughout multiple states for approximately \$7,100,000. The minerals right purchased were held for sale as of June 30, 2024 (see Note 18).

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

17. Acquisitions and Divestitures

The Company entered into multiple agreements dated from July 2022 to January 2023 to purchase mineral rights throughout multiple states for approximately \$15,400,000. The minerals right purchased were held for sale as of June 30, 2023 (see Note 18).

The Company entered into multiple agreements dated from July 2022 to May 2023 to purchase interests in proved properties located in Texas, Louisiana, and Wyoming by paying a carried capital working interest as consideration. The Company subsequently transferred approximately 90% of interest in the proved properties and assets among its affiliated partnerships. No gain or loss was recognized on the subsequent transfer.

On March 29, 2023, the Company entered into an agreement to purchase interests in proved properties in Louisiana for a consideration of \$434,000. The Company subsequently transferred 90% of interest in the proved properties and assets among its affiliated partnerships. No gain or loss was recognized on the subsequent transfer.

On December 30, 2022, the Company entered into an agreement to purchase interests in proved properties in Texas for a consideration of \$8,308,000. The Company subsequently transferred 100% of interest in the proved properties and assets among its affiliated partnerships. No gain or loss was recognized on the subsequent transfer.

On December 13, 2022, the Company entered into an agreement to purchase proved properties and assets located in Texas, which qualified as an asset acquisition, for approximately \$205,850,000 after final adjustments. The acquisition consisted of proved properties and midstream assets. The consideration paid was allocated based on the relative fair market value of the assets. Approximately \$170,840,000 was allocated to the proved properties and \$33,600,000 was allocated to the midstream assets. The Company subsequently transferred approximately 60% of its interest in the proved properties and 100% of the midstream assets among its affiliated partnerships. No gain or loss was recognized on the subsequent transfer.

On September 7, 2022, the Company entered into an agreement to purchase interests in proved properties in Texas for a consideration of \$4,755,000. The Company subsequently transferred 90% of interest in the proved properties and assets among its affiliated partnerships. No gain or loss was recognized on the subsequent transfer.

On July 26, 2022, the Company entered into an agreement to purchase interests in proved properties in Wyoming for a consideration of \$531,000. The Company subsequently transferred 90% of interest in the proved properties and assets among its affiliated partnerships. No gain or loss was recognized on the subsequent transfer.

**U.S. Energy Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements (continued)

18. Assets Held for Sale

On June 30, 2024 and 2023, the Company classified approximately \$14,879,000 and \$26,700,000, respectively, of mineral interests as “Assets held for sale” on the consolidated balance sheets. These assets are anticipated to be sold in the next twelve months. The revenues earned from these assets in the years ending June 30, 2024 and 2023 were not material.

19. Subsequent Events

Management of the Company has evaluated subsequent events for recognition or disclosure through November 1, 2024, the date the Company’s consolidated financial statements were available to be issued. The following subsequent events were identified, which would require recognition or disclosure to the financial statements.

The Company entered into multiple agreements dated from July 2024 to October 2024 to purchase proved properties and assets located in Texas, paying a carried capital working interest as consideration. The Company subsequently transferred approximately 80% to 90% of interest in the proved properties and assets among its affiliated partnerships. No gain or loss was recognized on the subsequent transfer.

On September 26, 2024, the Company purchased unproven leasehold in Texas for \$2,560,000.

The Company declared and paid equity distributions during July 2024 and October 2024 of \$1,580,651 and \$1,775,000, respectively.

GLOSSARY OF TERMS

In this Memorandum, the following terms have the meanings set forth below.

“Accredited Investor” has the meaning set forth in Section IX (Terms of the Offering – Suitability Standards; General Standards and Definition of Accredited Investor).

“Administrative Costs” means all customary and routine expenses incurred by the Managing General Partner and/or its Affiliates for the conduct of Partnership administration, including legal, finance, accounting, travel, telecommunications, data processing, general office overhead expenses of the Partnership and other items of a similar nature. Administrative Costs shall be charged to the Partnership based on actual cost. If an Administrative Cost benefits others in addition to the Partnership, the Partnership shall pay a proportionate share of such cost as reasonably determined by the Managing General Partner.

“Affiliate” means with respect to a specific Person:

- (i) any Person directly or indirectly owning, controlling, or holding with power to vote ten percent (10%) or more of the outstanding voting securities of the specified Person;
- (ii) any Person ten percent (10%) or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by the specified Person;
- (iii) any Person directly or indirectly controlling, controlled by, or under common control with the specified Person;
- (iv) any officer, director, trustee or partner of the specified Person; and
- (v) if the specified Person is an officer, director, trustee or partner, any Person for which the Person acts in such capacity.

“Alternative Energy Project” means a project involving the creation or generation of energy by means not involving oil or natural gas, such as solar, wind, hydrogen, geothermal, hydropower, biomass, biofuel, carbon capture, carbon capture utilization and storage, battery energy storage, mechanical energy storage, thermal energy storage, or other renewable energy projects or similar methods and related infrastructure.

“Assignment” means a conveyance of an interest in Leases and/or the wellbore for a Partnership Well to the Partnership.

“Benefit Plan Investor” means a Limited Partner that is any of the following:

- (i) an “employee benefit plan” within the meaning of Section 3(3) of ERISA that is subject to the fiduciary responsibility provisions of Title I of ERISA;
- (ii) a “plan” within the meaning of Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code; or

- (iii) any Person or entity whose assets are deemed to include the assets of any such “employee benefit plan” or “plan” under the Plan Assets Rules for purposes of Section 406 of ERISA or Section 4975 of the Code.

“Business Day” means any day other than a Saturday, Sunday or other day on which banks are authorized or required by law to be closed for the transaction of non-automated business in Fort Worth, Texas.

“Capital Account” or **“Account”** means the account established for each party to the Partnership Agreement, maintained as provided in Section 5.02 of the Partnership Agreement.

“Capital Contribution” means the amounts contributed to the Partnership by a Participant under (i) Section 3.04 and/or Section 3.05 of the Partnership Agreement, and (ii) the Managing General Partner’s contribution pursuant to Section 3.03(b)(1) of the Partnership Agreement, which amount is deemed contributed to the Partnership by the Managing General Partner in accordance with the term of the Partnership Agreement.

“Cash Distribution Policy” means the Partnership’s distribution plan to Participants from available cash, as determined by the Managing General Partner, as further described in Section XIV (Participation in Costs and Revenues – Distributions).

“Closing Date” means March 31, 2026 or such earlier date as selected by the Managing General Partner (extendable, in the Managing General Partner’s sole discretion and without the consent of Investors, to September 30, 2026).

“Code” means the Internal Revenue Code of 1986, as amended.

“COPAS” means the Council of Petroleum Accountants Societies COPAS 2005 Accounting Procedure.

“Cost” when used with respect to the sale or transfer of property to the Partnership, means:

- (i) the sum of the price paid by the seller or transferor to an unaffiliated Person for the property, including bonuses;
- (ii) land and title examination costs, title insurance, environmental examination costs, brokers’ commissions, filing fees, recording, costs, transfer taxes, if any, and like charges in connection with the sale or transfer of the property;
- (iii) a pro rata portion of the seller’s or transferor’s actual necessary and reasonable expenses for seismic and geophysical or petrophysical services or licensing; and
- (iv) rentals and ad valorem taxes paid by the seller or transferor with respect to the property to the date of its transfer to the buyer or transferee, interest and points actually incurred on funds used to acquire or maintain the property, and the portion of the seller’s or transferor’s reasonable, necessary, and actual expenses for geological, engineering, drafting, accounting, marketing, legal, land, and other like services allocated to the property cost in conformity with generally accepted accounting principles and industry standards, except for expenses in connection with the past drilling of wells which are not producers of sufficient quantities of oil

and natural gas to make commercially reasonable their continued operations; provided that, the expenses set forth in this subsection (iv) shall have been incurred not more than 36 months before the sale or transfer by the Partnership.

“Cost” when used with respect to services, means the reasonable, necessary, and actual expense incurred by the seller on behalf of the Partnership in providing the services, determined in accordance with generally accepted accounting principles.

As used elsewhere, **“Cost”** means the price paid by the seller in an arm’s length transaction.

“Dealer-Manager” means Westmoreland, an Affiliate of the Managing General Partner, and the broker-dealer which will manage the offering and sale of the Units.

“Direct Costs” means all actual costs directly incurred for the benefit of the Partnership and generally attributable to the goods and services provided to the Partnership, including without limitation, In-House Costs, equipment, non-routine operating activities, third party provided services (including a Third-Party Administrator), and similar items provided with respect to a Partnership Well or wells and charged in accordance with COPAS. Direct Costs:

- (i) shall not include any cost otherwise classified as Organization and Offering Costs, Administrative Costs, Tangible Costs, Operating Costs, or costs related to the Leases or other assets acquired or owned by the Partnership; but
- (ii) may include the cost of services provided by the Managing General Partner or its Affiliates if the services are provided under written contracts or otherwise in compliance with Section 4.03(e)(8) of the Partnership Agreement or pursuant to the Managing General Partner’s role as Partnership Representative; and
- (iii) may include the cost of services related to the evaluation and acquisition of assets for the Partnership.

“Distribution Re-Investment Program” or **“DRIP”**, means the program whereby Participants may elect to have the distributions to which they are entitled apply to the purchase of additional Units, as further described in Section 6.04 of the Partnership Agreement.

“Drill Site” means the drilling or spacing unit on which a Partnership Well will be drilled and, if warranted, completed.

“ERISA” means the United States Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder.

“Escrow Account” means the escrow account the Partnership will establish for the purpose of holding all Subscription Proceeds until the Initial Closing Date.

“ESG” means Environmental Stewardship, Social Responsibility, and Governance.

“EU” means the European Union.

“External Operator(s)” means an independent Person which operates wells the Partnership has an interest in, and may be bound by a service contract, operating agreement, or similar agreement

with the Partnership and/or the Managing General Partner to carry out drilling, completing, operating, and other activities on one or more wells.

“**FDL**” means Fleur de Lis Energy, LLC.

“**FERC**” means the Federal Energy Regulatory Commission.

“**Fiduciary**” or “**Fiduciaries**” means any person who exercises any discretionary authority or control over the management or disposition of the assets of a Benefit Plan Investor, or renders investment advice for a fee, directly or indirectly, to the Benefit Plan Investor.

“**Final Terminating Event**” means any one of the following:

- (i) the expiration of the fixed term of the Partnership, as set forth in Section 7.01(a) of the Partnership Agreement;
- (ii) the giving of notice to the Participants by the Managing General Partner of its election to terminate the affairs of the Partnership;
- (iii) the giving of notice by the Partners to the Managing General Partner of their similar election to terminate the affairs of the Partnership through the affirmative vote of sixty-five percent (65%) in Interest of Partners or the election by a Majority in Interest of Partners to participate in a Roll-Up; or
- (iv) the termination of the Partnership under §708(b)(1)(A) of the Code or the Partnership ceases to be a going concern.

“**Financing**” means any incurrence of indebtedness, financing, or refinancing by debt, sale and leaseback, or other form of financing (including, without limitation, any financing in the form of repurchase agreements, credit facility or subscription line facility) with respect to the Partnership or funding of Partnership Costs, or any debt or other similar monetary obligation, and the documentation evidencing and providing for such indebtedness, financing, or refinancing.

“**FINRA**” means the Financial Industry Regulatory Authority.

“**GHG**” means greenhouse gas.

“**Independent Expert**” means a Person with no material relationship to the Managing General Partner and/or its Affiliates who is qualified and who is in the business of rendering opinions regarding the value of oil and natural gas properties, oil and gas related assets, Alternative Energy Projects, or other energy-related assets, based on the evaluation of all pertinent economic, financial, geologic (if applicable), and engineering information available to the Managing General Partner and/or its Affiliates. For the avoidance of doubt, arrangements to serve as a reserves engineer and/or independent auditor of the Managing General Partner and/or any of its Affiliates shall not constitute a material relationship.

“**In-House Costs**” means fees, costs, and expenses, including employee time costs, incurred by the Managing General Partner or any of its Affiliates in connection with services or other resources provided to, or on behalf of, the Partnership and charged to the Partnership on a cost-recovery basis,

of the type that, were they not provided by the Managing General Partner or its Affiliates, would typically in the oil and gas industry, Alternative Energy Projects industry, or other energy related industries, be provided by third parties, as reasonably determined by the Managing General Partner.

“Initial Closing Date” means the date after the minimum amount of Subscription Proceeds has been received when Subscription Proceeds are first withdrawn from the Escrow Account.

“Intangible Drilling Costs” means those expenditures associated with property acquisition and drilling and completing oil and natural gas wells that under present law are generally accepted as fully deductible currently for federal income tax purposes. This includes all expenditures made with respect to any Partnership Well before the establishment of production in commercial quantities for wages, fuel, repairs, hauling, supplies and other costs and expenses incident to and necessary for drilling the well and preparing the well for the production of oil or natural gas, that are currently deductible pursuant to Section 263(c) of the Code and Treasury Regulation. Section 1.612-4, which are generally termed “intangible drilling and development costs,” including the expense of plugging and abandoning any Partnership Well before a completion attempt.

“Investment Advisers Act of 1940” means the U.S. Investment Advisers Act of 1940, as amended, or any successor thereto.

“Investment Company Act of 1940” means the U.S. Investment Company Act of 1940, as amended, or any successor thereto.

“Investor” means each Person signing the Subscription Agreement as Limited Partner.

“IRS” means the U.S. Internal Revenue Service.

“Joint Venture” when used with respect to oil and gas wells, generally means that two or more parties have agreed to make capital investments into drilling, completing, and producing the same well in exchange for fractional Working Interests in such well. The term, as used in the oil and gas industry, is interchangeable with “joint interest,” “participation,” and “co-ownership.”

“Landowner’s Royalty Interest” means an interest in production, or the proceeds therefrom, to be received free and clear of all costs of development, operation, or maintenance, reserved by a landowner on the creation of oil and natural gas Lease.

“Leases” means full or partial interests in oil and natural gas leases, oil and natural gas mineral rights, fee rights, licenses, concessions, or other rights under which the holder is entitled to explore for and produce oil and/or natural gas, and further includes any contractual rights to acquire any such interest. “Leases” may also refer to documents which grant the lessee therein the right to occupy and use the affected premises for the development of Alternative Energy Projects, or other use described therein, and which places certain obligations on the lessee as described therein.

“Limited Partners” means:

- (i) the Investors;
- (ii) the Managing General Partner in its capacity as Limited Partner to the extent of any optional Subscription as a Limited Partner under Section 3.03(b)(2) of the Partnership Agreement; and

- (iii) any other Persons who are admitted to the Partnership, in their capacity as a Limited Partner, as additional or substituted Limited Partners.

All Limited Partners shall be of the same class and have the same rights.

“**LLC**” means U.S. Energy Private Capital III LLC, a Delaware limited liability company, that will be a Limited Partner.

“**LLC Member**” means the Participants who elect to invest as a member of the LLC.

“**LLC Operating Agreement**” means the Operating Agreement dated on or about the date hereof by the LLC Members and the LLC.

“**Majority (or Other Specified Percentage) in Interest of Partners**” means Partners whose Units, in the aggregate, represent more than fifty percent (50%) (or such other specified percentage) of the sum of all Units held by Partners, as of the time of determination, excluding for purposes of this calculation, the Units of any defaulting Partner.

“**Majority (or Other Specified Percentage) in Interest of Participants**” means Participants whose Units, in the aggregate, represent more than fifty percent (50%) (or such other specified percentage) of the sum of all Units held by Participants, as of the time of determination, excluding for purposes of this calculation, the Units of any defaulting Participant.

“**Management Fee**” means a fee the Partnership will pay to the Managing General Partner for services it provides to the Partnership, which shall be calculated and paid pursuant to Section 4.04(a)(8) of the Partnership Agreement.

“**Managing General Partner**” means:

- (i) U.S. Energy Development Corporation; or
- (ii) any Person admitted to the Partnership as a general partner under this Agreement who is designated to exclusively supervise and manage the operations of the Partnership.

“**Memorandum**” means this Confidential Private Placement Memorandum dated as of April 4, 2025, as amended or supplemented from time to time.

“**Net Revenue Interest**” means that percentage of revenues attributable to the oil and natural gas rights subject to a particular Lease which a party acquiring a Lease is entitled to receive by virtue of its interest in the Lease.

“**Offering**” means the offering of Units pursuant to the terms of this Memorandum.

“**Offering Termination Date**” means the date on which the Managing General Partner determines, in its sole discretion, that the Partnership’s Subscription period is closed and the acceptance of Subscriptions ceases, which shall not be later than the earlier of:

- (i) March 31, 2026 (subject to one or more extensions by the Managing General Partner in its sole discretion but to no later than September 30, 2026);

- (ii) the time that Subscriptions for the maximum number of Units set forth in Section 3.03(c)(1) of the Partnership Agreement have been received and accepted by the Managing General Partner; or
- (iii) the time that Subscriptions from the maximum number of Participants set forth in Section 3.03(c)(2) of the Partnership Agreement have been accepted by the Managing General Partner.

In its sole discretion however, the Managing General Partner may continue to sell Units pursuant to the DRIP after the Offering Termination Date; provided, such Units shall not count towards the maximum number of Units for the Offering.

“Operating Agreement” means an operating agreement between the Managing General Partner as Operator, and the Partnership, a copy of the proposed form of which is attached as Exhibit A to the Partnership Agreement.

“Operating Costs” means expenditures made and costs incurred in producing and marketing oil, natural gas, or natural gas liquids from completed wells, producing and marketing produced energy, and in operating other assets of the Partnership, including, but not limited to:

- (i) labor, fuel, repairs, hauling, materials, supplies, utility charges, and other costs incident to or related to producing and marketing oil, natural gas, and natural gas liquids and/or produced energy;
- (ii) ad valorem, severance, and other applicable taxes;
- (iii) insurance and casualty loss expenses;
- (iv) compensation to well Operators or third parties for services rendered in conducting or supervising oil and natural gas or produced energy operations; and
- (v) reworking, Workover, subsequent equipping, and similar expenses relating to any Partnership Well, including the costs of completing a well to develop the target formation if the well has first been completed and produced only from a shallower or deeper formation.

“Operator” means any Person, including any External Operator, having the authority and responsibility to conduct the activities necessary to drill, complete, produce a well or wells, and/or operate other assets of the Partnership, subject to the terms of any applicable agreement governing such activities. The Operator of any Partnership Well may, but not necessarily will, be the Managing General Partner, or such other Person as may be designated by the Managing General Partner.

“Organization and Offering Costs” means all costs and expenses of organizing, marketing (including any placement fees), offering and selling the Units, including, but not limited to:

- (i) total underwriting and brokerage discounts and commissions (including fees of the underwriters’ attorneys);

- (ii) expenses incurred in connection with the preparation of any offering memorandum (including, without limitation, fees and expenses of legal and tax counsel), any Subscription materials, Side Letters and any other agreements or documents relating to the offering and/or sale of Units and any translations of such agreements;
- (iii) reimbursement for wholesaling expenses paid to the Dealer-Manager and other entities;
- (iv) expenses for printing, engraving, mailing, salaries of employees while engaged in sales activities, charges of transfer agents, registrars, trustees, escrow holders, depositaries, engineers, and other experts;
- (v) expenses incurred in coordinating broker-dealer seminars and meetings, including but not limited to training and education meetings for registered representatives of the selling dealers and the national and regional sales conferences of the selling dealers;
- (vi) amounts, if any, paid to a Third-Party Administrator with respect to the initial transfer of Units to Participants;
- (vii) travel and entertainment expenses relating to any of the foregoing;
- (viii) expenses of qualification of the sale of the securities under federal and state law, including taxes and fees, accountants' and attorneys' fees;
- (ix) the organization charge payable to the Managing General Partner; and
- (x) other front-end fees.

The foregoing list of expenses shall not be taken to be inclusive of all expenses and fees which will be Organization and Offering Costs.

“Overriding Royalty Interest” means an interest in the oil and natural gas produced under a specified oil and natural gas Lease or Leases included in the Partnership, or the proceeds from the sale of the oil, natural gas, and natural gas liquids, carved out of the Working Interest, to be received free and clear of all costs of development, operation, or maintenance.

“Participants” means:

- (i) the Managing General Partner to the extent of its optional Subscription under Section 3.03(b)(2) of the Partnership Agreement;
- (ii) the Limited Partners; and
- (iii) LLC Members.

“Partners” means:

- (i) the Managing General Partner; and

(ii) the Limited Partners, including the LLC.

“Partnership” means U.S. Energy Capital Partners III LP, a Delaware limited partnership.

“Partnership Agreement” means the Amended and Restated Agreement of Limited Partnership, including all exhibits to the Partnership Agreement (as amended, modified or supplemented from time to time).

“Partnership Costs” means all costs, fees, and expenses related to the Partnership’s organization, offering and sale of Units, and operations, to the extent permissible by law and according to the Partnership Agreement, including, without limitation (i) Administrative Costs, Organization and Offering Costs, Operating Costs, Tangible Costs, Intangible Drilling Costs and Direct Costs, (ii) all third-party costs, fees, and expenses incurred in connection with the performance of all due diligence investigations, including reviewing title to acquisitions, carry costs incurred in connection with any acquisition and geophysical or petrophysical analysis, in relation to the acquisition or ownership of any Partnership Well (including, without limitation, any such costs and expenses arising from investments in wells which are pursued but not ultimately made by the Partnership), (iii) the costs, fees, and expenses for the negotiation, structuring, Financing, and documentation in relation to the acquisition, management, ownership, and realization of any Partnership Well, including, without limitation, pursuing External Operators and partners entering into a Joint Venture with the Partnership, and any fees or similar commissions incurred in respect of any Partnership Well, (iv) the costs and expenses required to be paid in connection with any Financing to be obtained or assumed in connection with the operations of the Partnership, (v) the fees and expenses of all accountants, tax advisers, administrators, lawyers, investment bankers, consultants, underwriters, auditors, custodians, appraisers, and other professional advisers, (vi) costs and expenses associated with research in furtherance of the Partnership’s investment activities (including, without limitation, engaging consultants, participation in conferences, membership in trade organizations, and other activities that promote deal pipeline development), (vii) travel, lodging, and similar expenses incurred by the Managing General Partner or its Affiliates or their respective directors, officers or employees arising from the acquisition, ownership, operation, or disposal of any Partnership Well (in the case of a proposed investment, whether or not actually acquired, or in the case of an existing well, whether or not actually disposed of) or other operation of the Partnership, (viii) costs and expenses incurred in connection with organizing meetings required or permitted under the Partnership Agreement, (ix) costs and expenses associated with the winding up, dissolution, and/or liquidation of the assets of the Partnership, and (x) without duplication, compensation to the Managing General Partner set forth in Section 4.04(a)(2) of the Partnership Agreement.

“Partnership Net Production Revenues” means gross revenues after deduction of the related Operating Costs, Direct Costs, Administrative Costs, and all other Partnership Costs not specifically allocated.

“Partnership Representative” means the partnership representative within the meaning of Section 6223 of the Code.

“Partnership Well” means a well, some portion of the revenues from which is received by the Partnership.

“Person” means a natural person, partnership, corporation, association, trust or other legal entity.

“Plan Assets Rules” means Department of Labor regulation 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA, as modified or amended from time to time.

“Program” means one or more limited or general partnerships or other investment vehicles formed, or to be formed, by the Managing General Partner or its Affiliates, for the primary purpose of:

- (i) exploring for oil, natural gas, and other Hydrocarbon substances; or
- (ii) acquiring oil and gas energy related assets;
- (iii) creation or generation of energy by means not involving oil or natural gas, such as solar, wind, hydrogen, geothermal, hydropower, biomass, biofuel, carbon capture, carbon capture utilization and storage, battery energy storage, mechanical energy storage, thermal energy storage, or other renewable energy projects or similar methods and related infrastructure; or
- (iv) investing in or holding any property interests which permit the exploration for or production of oil, natural gas, and Hydrocarbons or the receipt of such production or the proceeds thereof.

“Proved Reserves” means the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Reservoirs are considered proved if economic predictability is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes:

- (i) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and
- (ii) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data.

In the absence of information on fluid contacts, the lowest known structural occurrence of Hydrocarbons controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

Estimates of Proved Reserves do not include the following:

- (a) oil that may become available from known reservoirs but is classified separately as “indicated additional reserves”;
- (b) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;
- (c) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and
- (d) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite, and other such sources.

“Qualified Entity” means individual retirement accounts, Keogh Plans, Qualified Retirement Plans, and similar entities.

“Regulation D” means Regulation D promulgated under the Securities Act of 1933.

“Regulations” means the Treasury Regulations issued by the Treasury.

“Roll-Up” means a transaction involving the acquisition, merger, conversion or consolidation, either directly or indirectly, of the Partnership and the issuance of securities of a Roll-Up Entity. The term does not include:

- (i) a transaction involving securities of the Partnership that have been listed for at least 12 months on a national exchange or traded through the National Association of Securities Dealers Automated Quotation National Market System; or
- (ii) a transaction involving the conversion to corporate, trust or association form of only the Partnership if, as a consequence of the transaction, there will be no significant adverse change in any of the following:
 - (a) voting rights;
 - (b) the term of existence of the Partnership;
 - (c) the Managing General Partner’s compensation; and
 - (d) the Partnership’s investment objectives.

“Roll-Up Entity” means a partnership, trust, corporation, or other entity that would be created or survive after the successful completion of a Roll-Up transaction.

“Sales Commission” means all underwriting and brokerage discounts and commissions incurred in the sale of Units in the Partnership payable to registered broker-dealers, but excluding:

- (i) the Dealer-Manager Fee unless the Dealer-Manager is not legally able to receive it;
- (ii) the Due Diligence Fee;

- (iii) the Marketing Expense Fee; and
- (iv) a three-tenths of one percent (0.3%) Organization and Offering Costs payment to the Managing General Partner.

“**SEC**” means the Securities and Exchange Commission.

“**Securities Act of 1933**” means the U.S. Securities Act of 1933, as amended from time to time, or any successor thereto.

“**Selling Agents**” means those broker-dealers selected by the Dealer-Manager which will participate in the offer and sale of the Units.

“**Side Letters**” means side letter agreements that the Partnership or the Managing General Partner may, without any further act, approval or vote of any Partner, enter into.

“**Similar Law**” means any federal, state, local or non-U.S. law or regulation that is substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code.

“**Subscription**” means the subscription by a Participant of the Units in accordance with the Partnership Agreement.

“**Subscription Agreement**” means the Partnership’s execution and Subscription Booklet, including all relevant Exhibits, Annexes and supplementary documents referenced therein.

“**Subscription Proceeds**” means with respect to any Participant, the amount of its Subscription set forth in such Participant’s Subscription Agreement and contributed to the Partnership, as such amount may be adjusted from time to time pursuant to and in accordance with the provisions of the Partnership Agreement.

“**Tangible Costs**” means those costs associated with drilling and completing oil and natural gas wells which are generally accepted as capital expenditures under the provisions of the Code. This includes all costs of equipment, parts, and items of hardware used in drilling and completing a well, and those items necessary to deliver acceptable oil, natural gas, and natural gas liquids production to purchasers to the extent installed downstream from the wellhead of any Partnership Well and which are required to be capitalized under applicable provisions of the Code and regulations promulgated under the Code. Such terms may also include similar costs related to the acquisition or operation of Alternative Energy Projects or other energy-related assets.

“**Target Distribution**” means the Investor’s annualized distribution which will be an amount up to, but not to exceed, twelve percent (12%), annualized, of the amount of the Investor’s net Subscription Proceeds; provided, the Managing General Partner has the right to change such percentage based upon actual Partnership performance.

“**The Tax Cuts and Jobs Act**” means H.R.1., an act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for the fiscal year 2018, which was signed into law on December 22, 2017.

“Third-Party Administrator” means an entity, which may be an Affiliate of the Managing General Partner, that provides administrative services to the Partnership.

“UK” means the United Kingdom.

“Units” means the Limited Partner interests in the Partnership purchased by Participants under the provisions of Section 3.03 of the Partnership Agreement, including any rights to profits, losses, income, gain, credits, deductions, cash distributions or returns of capital, or other attributes of the Units; and also includes the interests of the LLC Members in the LLC.

“U.S. Energy” means U.S. Energy Development Corporation, a New York corporation, whose principal executive offices are located at 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164.

“Westmoreland” means Westmoreland Capital Corporation, whose principal executive offices are located at 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164 and which serves as Dealer-Manager.

“Working Interest” means an interest in an oil and natural gas leasehold which is subject to some portion of the cost of development, operation, or maintenance.

“Workover” means operations on a previously productive well to maintain, restore, or increase production.

Throughout this Memorandum, (i) any reference to “you” is a reference to you as a potential investor or Participant in the Partnership, (ii) unless the context suggests otherwise, any reference to “we,” “us,” and “our” means the Managing General Partner or the Partnership, as applicable, and, where the context permits, their Affiliates which may provide services in connection with this Offering or the operation of the Partnership, (iii) any reference to a treaty, law or regulation is a reference to that treaty, law or regulation as extended, amended or re-enacted and includes any successor law or regulation, (iv) any reference to an entity includes its successors in interest, permitted assigns and permitted transferees, (v) any phrase introduced by the terms “including,” “include,” “in particular,” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms, and (vi) the terms defined in this Memorandum include the plural as well as the singular, and any gender or the neuter includes other genders and the neuter.

EXHIBITS

EXHIBIT A

**AMENDED AND RESTATED AGREEMENT OF LIMITED
PARTNERSHIP**

U.S. ENERGY PRIVATE CAPITAL III LP

AMENDED AND RESTATED

AGREEMENT OF LIMITED PARTNERSHIP

April 4, 2025

THE SECURITIES EVIDENCED BY THIS AGREEMENT HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT OF 1933”), OR ANY SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OF AMERICA OR ANY OTHER JURISDICTION. THE SECURITIES MUST BE ACQUIRED FOR INVESTMENT PURPOSES ONLY, ARE RESTRICTED AS TO TRANSFERABILITY, AND MAY NOT BE OFFERED, TRANSFERRED, OR SOLD WITHIN THE UNITED STATES OF AMERICA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT OF 1933), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND APPLICABLE LAWS OF OTHER JURISDICTIONS, IN COMPLIANCE WITH THE RESTRICTIONS CONTAINED IN THIS AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP, THE SUBSCRIPTION AGREEMENT AND THE MEMORANDUM.

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**AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP
U.S. ENERGY PRIVATE CAPITAL III LP**

THIS AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP (this “Agreement”), amending and restating the initial agreement of limited partnership, dated as of December 22, 2023, is made and entered into as of April 4, 2025, by and among U.S. Energy Development Corporation, (“**U.S. Energy**” or the “**Managing General Partner**,”) and the remaining parties from time to time signing a **Subscription Agreement** for Limited Partner Units, these parties sometimes referred to as “**Limited Partners**.”

**ARTICLE I
DEFINITION OF TERMS**

1.01. **Definitions.** As used in this Agreement, the following terms shall have the meanings set forth below:

“**Administrative Costs**” means all customary and routine expenses incurred by the Managing General Partner and/or its Affiliates for the conduct of Partnership administration, including legal, finance, accounting, travel, telecommunications, data processing, general office overhead expenses of the Partnership and other items of a similar nature. Administrative Costs shall be charged to the Partnership based on actual cost. If an Administrative Cost benefits others in addition to the Partnership, the Partnership shall pay a proportionate share of such cost as reasonably determined by the Managing General Partner.

“**Administrator**” means the official or agency administering the securities laws of a state.

“**Affiliate**” means with respect to a specific Person:

- (a) any Person directly or indirectly owning, controlling, or holding with power to vote ten percent (10%) or more of the outstanding voting securities of the specified Person;
- (b) any Person ten percent (10%) or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by the specified Person;
- (c) any Person directly or indirectly controlling, controlled by, or under common control with the specified Person;
- (d) any officer, director, trustee or partner of the specified Person; and
- (e) if the specified Person is an officer, director, trustee or partner, any Person for which the Person acts in such capacity.

“**Agreement**” means this Amended and Restated Agreement of Limited Partnership, as may be amended from time to time.

“Alternative Energy Project” means a project involving the creation or generation of energy by means not involving oil or natural gas, such as solar, wind, hydrogen, geothermal, hydropower, biomass, biofuel, carbon capture, carbon capture utilization and storage, battery energy storage, mechanical energy storage, thermal energy storage, or other renewable energy projects or similar methods and related infrastructure.

“Anti-Corruption Laws” has the meaning set forth in Section 9.02(b).

“Anti-Money Laundering Laws” has the meaning set forth in Section 9.02(b).

“Assignment” means a conveyance of an interest in Leases and/or the wellbore for a Partnership Well to the Partnership.

“Assumed Tax Rate” means an effective tax rate equal to the maximum marginal combined foreign, federal, state and local tax rate applicable to any Person holding direct or indirect interests in the Managing General Partner without consideration of the effect of any deductions, offsets or credits available to the Managing General Partner or its direct or indirect partners or members from other sources, or the ability to apply deductions and losses from the Partnership against income from other sources, and shall be appropriately adjusted to take into account the different tax rates that may be in effect for different types of income or different taxable years (including by taking into account the application of Code Section 1061 to the extent applicable), alternative minimum tax consequences, and to reflect any limitations on the deductibility of any expenses or losses.

“Benefit Plan Investor” means a Limited Partner that is any of the following:

- (a) an “employee benefit plan” within the meaning of Section 3(3) of ERISA that is subject to the fiduciary responsibility provisions of Title I of ERISA;
- (b) a “plan” within the meaning of Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code; or
- (c) any Person or entity whose assets are deemed to include the assets of any such “employee benefit plan” or “plan” under the Plan Assets Rules for purposes of Section 406 of ERISA or Section 4975 of the Code.

“Business Day” means any day other than a Saturday, Sunday or other day on which banks are authorized or required by law to be closed for the transaction of non-automated business in Fort Worth, Texas.

“Capital Account” or **“Account”** means the account established for each party to this Agreement, maintained as provided in Section 5.02.

“Capital Contribution” means the amounts contributed to the Partnership by a Participant under (i) Section 3.04 and/or Section 3.05 and (ii) the Managing General Partner’s contribution pursuant to Section 3.03(b)(1), which amount is deemed contributed to the Partnership by the Managing General Partner.

“Cash Distribution Policy” has the meaning set forth in Section 5.06(i).

“**Certificate**” has the meaning set forth in Section 2.02.

“**Claims and Expenses**” means, with respect to each Indemnified Person, any and all liabilities, obligations, losses, damages, fines, taxes and interest and penalties thereon, threatened or actual claims, demands, actions, suits, proceedings (whether civil, criminal, administrative, investigative, or otherwise), costs, expenses, and disbursements (including, without limitation, legal and accounting fees and expenses, costs of investigation incurred in defending any threatened or actual claim, demand, action, suit, or proceeding in advance of the final settlement of such matter and sums paid in settlement) of any kind or nature whatsoever, which may be imposed on, incurred by, or asserted at any time against such Indemnified Person in any way related to or arising out of this Agreement, any Subscription Agreement, the Partnership, the operations of the Partnership, or the management, administration, or activities of any Indemnified Person on behalf of the Partnership; *provided that*, in no event shall such Claims and Expenses include any damages which represent loss of profit, goodwill, business opportunity, anticipated saving, indirect losses, special or punitive losses, or consequential losses to such Indemnified Person.

“**Clawback Amount**” has the meaning set forth in Section 7.02(d).

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Confidential Information**” has the meaning set forth in Section 10.06.

“**Controlling Person**” means any Person or entity (other than a Benefit Plan Investor), or any affiliates (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of such Person or entity, who exercises control over the assets of the Partnership or provides investment advice with respect to such assets for a fee, directly or indirectly.

“**COPAS**” means the Council of Petroleum Accountants Societies COPAS 2005 Accounting Procedure.

“**Cost**” when used with respect to the sale or transfer of property to the Partnership, means:

- (a) the sum of the price paid by the seller or transferor to an unaffiliated Person for the property, including bonuses;
- (b) land and title examination costs, title insurance, environmental examination costs, brokers’ commissions, filing fees, recording, costs, transfer taxes, if any, and like charges in connection with the sale or transfer of the property;
- (c) a pro rata portion of the seller’s or transferor’s actual necessary and reasonable expenses for seismic and geophysical or petrophysical services or licensing; and
- (d) rentals and ad valorem taxes paid by the seller or transferor with respect to the property to the date of its transfer to the buyer or transferee, interest and points actually incurred on funds used to acquire or maintain the property, and the portion of the seller’s or transferor’s reasonable, necessary, and actual expenses for geological, engineering, drafting, accounting, marketing, legal, land, and other like services allocated to the property cost in conformity with generally accepted

accounting principles and industry standards, except for expenses in connection with the past drilling of wells which are not producers of sufficient quantities of oil and natural gas to make commercially reasonable their continued operations; *provided that*, the expenses set forth in this clause (d) shall have been incurred not more than 36 months before the sale or transfer by the Partnership.

“Cost” when used with respect to services, means the reasonable, necessary, and actual expense incurred by the seller on behalf of the Partnership in providing the services, determined in accordance with generally accepted accounting principles. As used elsewhere, **“Cost”** means the price paid by the seller in an arm’s length transaction.

“Dealer-Manager” means Westmoreland, an Affiliate of the Managing General Partner and the broker-dealer which will manage the offering and sale of the Units.

“Dealer-Manager Fee” has the meaning set forth in Section 4.04(a)(7)(i).

“Direct Costs” means all actual costs directly incurred for the benefit of the Partnership and generally attributable to the goods and services provided to the Partnership, including without limitation, In-House Costs, equipment, non-routine operating activities, third party provided services (including a Third-Party Administrator), and similar items provided with respect to a Partnership Well or wells and charged in accordance with COPAS. Direct Costs:

- (a) shall not include any cost otherwise classified as Organization and Offering Costs, Administrative Costs, Intangible Drilling Costs, Tangible Costs, Operating Costs, or costs related to the Leases or other assets acquired or owned by the Partnership; but
- (b) may include the cost of services provided by the Managing General Partner or its Affiliates if the services are provided under written contracts or otherwise in compliance with Section 4.03(e)(8) or pursuant to the Managing General Partner’s role as Partnership Representative; and
- (c) may include the cost of services related to the evaluation and acquisition of assets for the Partnership.

“Distribution Re-Investment Program” or **“DRIP,”** means the program whereby Participants may elect to have the distributions to which they are entitled apply to the purchase of additional Units, as further described in Section 6.04.

“Drill Site” means the drilling or spacing unit on which a Partnership Well will be drilled and, if warranted, completed.

“Due Diligence Fee” has the meaning set forth in Section 4.04(a)(7)(iii).

“ERISA” means the United States Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder.

“ERISA Partner” means (i) any Partner that is a Benefit Plan Investor and had notified the Managing General Partner of such status in its Subscription Agreement (or transfer documents), or (ii) any other Partner to the extent that the Managing General Partner has agreed to treat such Partner as an “ERISA Partner”.

“Escrow Account” means the escrow account the Partnership will establish for the purpose of holding all Subscription Proceeds until the Initial Closing Date.

“External Operator(s)” means an independent Person which operates wells the Partnership has an interest in, and may be bound by a service contract, operating agreement, or similar agreement with the Partnership and/or the Managing General Partner to carry out drilling, completing, operating, and other activities on one or more wells.

“Farmout” means an agreement whereby the owner of the leasehold or Working Interest agrees to assign its interest in certain specific acreage to the assignees, retaining some interest such as an Overriding Royalty Interest, an oil and gas payment, offset acreage, or other type of interest, subject to the drilling of one or more specific wells or other performance as a condition of the assignment.

“Final Terminating Event” means any one of the following:

- (a) the expiration of the fixed term of the Partnership as set forth in Section 7.01(a);
- (b) the giving of notice to the Participants by the Managing General Partner of its election to terminate the affairs of the Partnership;
- (c) the giving of notice by the Partners to the Managing General Partner of their similar election to terminate the affairs of the Partnership through the affirmative vote of sixty-five percent (65%) in Interest of Partners or the election by a Majority in Interest of Partners to participate in a Roll-Up; or
- (d) the termination of the Partnership under Section 708(b)(1)(A) of the Code or the Partnership ceases to be a going concern.

“Financing” means any incurrence of indebtedness, financing, or refinancing by debt, sale and leaseback, or other form of financing (including, without limitation, any financing in the form of repurchase agreements, credit facility or subscription line facility) with respect to the Partnership or funding of Partnership Costs, or any debt or other similar monetary obligation, and the documentation evidencing and providing for such indebtedness, financing, or refinancing.

“Horizon” means a zone of a particular formation; that part of a formation of sufficient porosity and permeability to form a petroleum reservoir.

“Indemnified Person” means each of:

- (a) the Managing General Partner, the Operator, the Partnership Representative, and any Affiliate of any of the foregoing; and

- (b) any director, officer, stockholder, shareholder, partner, employee, agent, member, manager, representative, affiliate, or successor of any of the foregoing.

“Independent Expert” means a Person with no material relationship to the Managing General Partner and/or its Affiliates who is qualified and who is in the business of rendering opinions regarding the value of oil and natural gas properties, oil and gas related assets, Alternative Energy Projects, or other energy related assets, based on the evaluation of all pertinent economic, financial, geologic, and engineering information available to the Managing General Partner and/or its Affiliates. For the avoidance of doubt, arrangements to serve as a reserves engineer and/or independent auditor of the Managing General Partner and/or any of its Affiliates shall not constitute a material relationship.

“In-House Costs” means fees, costs, and expenses, including employee time costs, incurred by the Managing General Partner or any of its Affiliates in connection with services or other resources provided to, or on behalf of, the Partnership and charged to the Partnership on a cost-recovery basis, of the type that, were they not provided by the Managing General Partner or its Affiliates, would typically in the oil and gas industry, Alternative Energy Projects industry, or other energy related industries, be provided by third parties, as reasonably determined by the Managing General Partner.

“Initial Closing Date” means the date after the minimum amount of Subscription Proceeds has been received when Subscription Proceeds are first withdrawn from the Escrow Account.

“Intangible Drilling Costs” means those expenditures associated with property acquisition and drilling and completing oil and natural gas wells that under present law are generally accepted as fully deductible currently for federal income tax purposes. This includes all expenditures made with respect to any Partnership Well before the establishment of production in commercial quantities for wages, fuel, repairs, hauling, supplies and other costs and expenses incident to and necessary for drilling the well and preparing the well for the production of oil or natural gas, that are currently deductible pursuant to Section 263(c) of the Code and Treasury Regulation. Section 1.612-4, which are generally termed “intangible drilling and development costs,” including the expense of plugging and abandoning any Partnership Well before a completion attempt.

“Interim Closing Date” means those date(s) after the Initial Closing Date of the Partnership, but on or before the Offering Termination Date, that the Managing General Partner, in its sole discretion, applies additional Subscription Proceeds to additional Partnership activities, including acquisition activities.

“Investment Objective” has the meaning set forth in Section 2.04.

“IRS” means the U.S. Internal Revenue Service.

“Joint Venture” when used with respect to oil and gas wells, generally means that two or more parties have agreed to make capital investments into drilling, completing, and producing the same well in exchange for fractional Working Interests in such well. The term, as used in the oil and gas industry, is interchangeable with “joint interest,” “participation,” and “co-ownership.”

“Lease” means full or partial interests in oil and natural gas leases, oil and natural gas mineral rights, fee rights, licenses, concessions, or other rights under which the holder is entitled to explore for and produce oil and/or natural gas, and further includes any contractual rights to acquire any such interest. “Leases” may also refer to documents which grant the lessee therein the right to occupy and use the affected premises for the development of Alternative Energy Projects, or other use described therein, and which places certain obligations on the lessee as described therein.

“Limited Partner” means:

- (a) each Person signing a Subscription Agreement as a Limited Partner;
- (b) the Managing General Partner, in its capacity as Limited Partner, to the extent of any optional Subscription as a Limited Partner under Section 3.03(b)(2); and
- (c) any other Persons who are admitted, in their capacity as a Limited Partner, to the Partnership as an additional or Substitute Partner.

All Limited Partners shall be of the same class and have the same rights.

“LLC” means U.S. Energy Private Capital III LLC, a Delaware limited liability company, whose members are Qualified Entities or other Participants who elect to invest as members of the LLC, and which itself is a Limited Partner.

“LLC Member” means the Participants who elect to invest as members of the LLC.

“LLC Operating Agreement” means the Operating Agreement dated on or about the date hereof by the LLC Members and the LLC, as amended from time to time.

“LP Act” has the meaning set forth in Section 2.01.

“Majority (or Other Specified Percentage) in Interest of Limited Partners” means Limited Partners whose Units, in the aggregate, represent more than fifty percent (50%) (or such other specified percentage) of the sum of all Units held by Limited Partners, as of the time of determination, excluding, for purposes of this calculation, the Units of any defaulting Limited Partner.

“Majority (or Other Specified Percentage) in Interest of Participants” means Participants whose Units, in the aggregate, represent more than fifty percent (50%) (or such other specified percentage) of the sum of all Units held by Participants, as of the time of determination, excluding, for purposes of this calculation, the Units of any defaulting Participant.

“Majority (or Other Specified Percentage) in Interest of Partners” means Partners whose Units, in the aggregate, represent more than fifty percent (50%) (or such other specified percentage) of the sum of all Units held by Partners, as of the time of determination, excluding, for purposes of this calculation, the Units of any defaulting Partner.

“Management Fee” means a fee the Partnership shall pay to the Managing General Partner for services it provides to the Partnership, which shall be calculated and paid pursuant to Section 4.04(a)(8).

“Managing General Partner” means:

- (a) U.S. Energy Development Corporation; or
- (b) any Person admitted to the Partnership as a general partner under this Agreement who is designated to exclusively supervise and manage the operations of the Partnership.

“Marketing Expense Fee” has the meaning set forth in Section 4.04(a)(7)(iv).

“Memorandum” means the Confidential Private Placement Memorandum of the Partnership, dated April 4, 2025, as amended or supplemented from time to time.

“OFAC” has the meaning set forth in Section 9.02(a)(1).

“Offering Termination Date” means the date on which the Managing General Partner determines, in its sole discretion, that the Partnership’s Subscription period is closed and the acceptance of Subscriptions ceases, which shall not be later than the earlier of:

- (a) March 31, 2026 (subject to one or more extensions by the Managing General Partner in its sole discretion but to no later than September 30, 2026); or
- (b) the time that Subscriptions for the maximum number of Units set forth in Section 3.03(c)(1) have been received and accepted by the Managing General Partner; or
- (c) the time that Subscriptions from the maximum number of Participants set forth in Section 3.03(c)(2) have been accepted by the Managing General Partner.

In its sole discretion however, the Managing General Partner may continue to sell Units pursuant to the DRIP after the Offering Termination Date; *provided*, such Units shall not count towards the maximum number of Units for the offering.

“Operating Agreement” means an operating agreement between the Managing General Partner, as Operator, and the Partnership, a copy of the proposed form which is attached as Exhibit A.

“Operating Costs” means expenditures made and costs incurred in producing and marketing oil, natural gas, or natural gas liquids from completed wells, producing and marketing produced energy, and in operating other assets of the Partnership, including, but not limited to:

- (a) labor, fuel, repairs, hauling, materials, supplies, utility charges, and other costs incident to or related to producing and marketing oil, natural gas and natural gas liquids and/or produced energy;
- (b) ad valorem, severance, and other applicable taxes;

- (c) insurance and casualty loss expenses;
- (d) compensation to well Operators or third parties for services rendered in conducting or supervising oil and natural gas or produced energy operations; and
- (e) reworking, Workover, subsequent equipping and similar expenses relating to any Partnership Well, including the costs of completing a well to develop the target formation if the well has first been completed and produced only from a shallower or deeper formation.

“Operator” means any Person, including any External Operator, having the authority and responsibility to conduct the activities necessary to drill, complete, produce a well or wells, and/or operate other assets of the Partnership, subject to the terms of any applicable agreement governing such activities. The Operator of any Partnership Well may, but not necessarily will, be the Managing General Partner, or such other Person as may be designated by the Managing General Partner.

“Organization and Offering Costs” means all costs and expenses of organizing, marketing (including any placement fees), offering and selling the Units, including, but not limited to:

- (a) total underwriting and brokerage discounts and commissions (including fees of the underwriters’ attorneys);
- (b) expenses incurred in connection with the preparation of any offering memorandum (including, without limitation, fees and expenses of legal and tax counsel), any Subscription materials, Side Letters and any other agreements or documents relating to the offering and/or sale of Units and any translations of such agreements;
- (c) reimbursement for wholesaling expenses paid to the Dealer-Manager and other entities;
- (d) expenses for printing, engraving, mailing, salaries of employees while engaged in sales activities, charges of transfer agents, registrars, trustees, escrow holders, depositaries, engineers, and other experts;
- (e) expenses incurred in coordinating broker-dealer seminars and meetings, including but not limited to training and education meetings for registered representatives of the selling dealers and the national and regional sales conferences of the selling dealers;
- (f) amounts, if any, paid to a Third-Party Administrator with respect to the initial transfer of Units to Participants;
- (g) travel and entertainment expenses relating to any of the foregoing;
- (h) expenses of qualification of the sale of the securities under federal and state law, including taxes and fees, accountants’ and attorneys’ fees;

- (i) Organization Charge payable to the Managing General Partner; and
- (j) other front-end fees.

The foregoing list of expenses shall not be taken to be inclusive of all expenses and fees which will be Organization and Offering Costs.

“Organization Charge” has the meaning set forth in Section 4.04(a)(7).

“Original Limited Partner” means the Person making the initial Limited Partner Capital Contribution in connection with the formation of the Partnership.

“Overriding Royalty Interest” means an interest in the oil and natural gas produced under a specified oil and natural gas Lease or Leases included in the Partnership, or the proceeds from the sale of the oil, natural gas, and natural gas liquids, carved out of the Working Interest, to be received free and clear of all costs of development, operation, or maintenance.

“Participants” means:

- (a) the Managing General Partner to the extent of its optional Subscription under Section 3.03(b)(2);
- (b) the Limited Partners; and
- (c) LLC Members.

“Partners” means:

- (a) the Managing General Partner; and
- (b) the Limited Partners, including the LLC.

“Partnership” means U.S. Energy Capital Partners III LP, a Delaware limited partnership.

“Partnership Costs” means all costs, fees, and expenses related to the Partnership’s organization, offering and sale of Units, and operations, to the extent permissible by law and according to this Agreement, including, without limitation: (i) Administrative Costs, Organization and Offering Costs, Operating Costs, Tangible Costs, Intangible Drilling Costs, and Direct Costs; (ii) all third-party costs, fees, and expenses incurred in connection with the performance of all due diligence investigations, including reviewing title to acquisitions, carry costs incurred in connection with any acquisition and geophysical or petrophysical analysis, in relation to the acquisition, or ownership of any Partnership Well (including, without limitation, any such costs and expenses arising from investments in wells which are pursued but not ultimately made by the Partnership); (iii) the costs, fees, and expenses for the negotiation, structuring, Financing, and documentation in relation to the acquisition, management, ownership, and realization of any Partnership Well, including, without limitation, pursuing External Operators and partners entering into a Joint Venture with the Partnership and any fees or similar commissions incurred in respect of any Partnership Well; (iv) the costs and expenses required to be paid in connection with

any Financing to be obtained or assumed in connection with the operations of the Partnership; (v) the fees and expenses of all accountants, tax advisers, administrators, lawyers, investment bankers, consultants, underwriters, auditors, custodians, appraisers, and other professional advisers; (vi) costs and expenses associated with research in furtherance of the Partnership's investment activities (including, without limitation, engaging consultants, participation in conferences, membership in trade organizations, and other activities that promote deal pipeline development); (vii) travel, lodging, and similar expenses incurred by the Managing General Partner or its Affiliates or their respective directors, officers or employees arising from the acquisition, ownership, operation, or disposal of any Partnership Well (in the case of a proposed investment, whether or not actually acquired, or in the case of an existing well, whether or not actually disposed of) or other operation of the Partnership; (viii) costs and expenses incurred in connection with organizing meetings required or permitted under this Agreement; (ix) costs and expenses associated with the winding up, dissolution, and/or liquidation of the assets of the Partnership; and (x) without duplication, compensation to the Managing General Partner set forth in Section 4.04(a)(2) of this Agreement.

“Partnership Representative” means the partnership representative within the meaning of Section 6223 of the Code.

“Partnership Well” means a well, some portion of the revenues from which is received by the Partnership.

“Person” means a natural person, partnership, corporation, association, trust, or other legal entity.

“Plan Assets Rules” means Department of Labor regulation 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA, as modified or amended from time to time.

“Program” means one or more limited or general partnerships or other investment vehicles formed, or to be formed, by the Managing General Partner or its Affiliates, for the primary purpose of:

- (a) exploring for oil, natural gas, and other hydrocarbon substances; or
- (b) acquiring oil and gas energy related assets;
- (c) creation or generation of energy by means not involving oil or natural gas, such as solar, wind, hydrogen, geothermal, hydropower, biomass, biofuel, carbon capture, carbon capture utilization and storage, battery energy storage, mechanical energy storage, thermal energy storage, or other renewable energy projects or similar methods and related infrastructure; or
- (d) investing in or holding any property interests which permit the exploration for or production of oil, natural gas, and hydrocarbons or the receipt of such production or the proceeds thereof.

“Proved Reserves” means the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be

recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

- (a) Reservoirs are considered proved if economic predictability is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes:
 - (1) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and
 - (2) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data.

In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

- (b) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

Estimates of Proved Reserves do not include the following:

- (1) oil that may become available from known reservoirs but is classified separately as “indicated additional reserves”;
- (2) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;
- (3) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and
- (4) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite, and other such sources.

“Qualified Entity” means individual retirement accounts, Keogh Plans, Qualified Retirement Plans, and similar entities.

“Regulations” means the Treasury Regulations issued by the Treasury.

“Roll-Up” means a transaction involving the acquisition, merger, conversion, or consolidation, either directly or indirectly, of the Partnership and the issuance of securities of a Roll-Up Entity. The term does not include:

- (a) a transaction involving securities of the Partnership that have been listed for at least 12 months on a national exchange or traded through the National Association of Securities Dealers Automated Quotation National Market System; or
- (b) a transaction involving the conversion to corporate, trust or association form of only the Partnership if, as a consequence of the transaction, there will be no significant adverse change in any of the following:
 - (1) voting rights;
 - (2) the term of existence of the Partnership;
 - (3) the Managing General Partner's compensation; and
 - (4) the Partnership's investment objectives.

“Roll-Up Entity” means a partnership, trust, corporation, or other entity that would be created or survive after the successful completion of a Roll-Up transaction.

“Sales Commission” means all underwriting and brokerage discounts and commissions incurred in the sale of Units in the Partnership payable to registered broker-dealers, but excluding:

- (a) the Dealer-Manager Fee unless the Dealer-Manager is not legally able to receive it;
- (b) the Due Diligence Fee;
- (c) the Marketing Expense Fee; and
- (d) a three-tenths of one percent (0.3%) Organization and Offering Costs payment to the Managing General Partner.

“Sanctioned Country” has the meaning set forth in Section 9.02(a).

“Sanctions” has the meaning set forth in Section 9.02(a).

“Securities Act of 1933” means the US Securities Act of 1933, as amended from time to time, or any successor thereto.

“Selling Agents” means those broker-dealers selected by the Dealer-Manager which will participate in the offer and sale of the Units.

“Side Letters” has the meaning set forth in Section 10.07.

“Subscription” means the subscription by a Participant of the Units pursuant to Section 3.03.

“Subscription Agreement” means the Partnership's execution and Subscription Booklet, including all relevant Exhibits, Annexes and supplementary documents referenced therein.

“Subscription Proceeds” means with respect to any Participant, the amount of its Subscription set forth in such Participant’s Subscription Agreement and contributed to the Partnership, as such amount may be adjusted from time to time pursuant to and in accordance with the provisions of this Agreement.

“Substitute Partner” has the meaning set forth in Section 6.02(d).

“Tangible Costs” means those costs associated with drilling and completing oil and natural gas wells which are generally accepted as capital expenditures under the provisions of the Code. This includes all costs of equipment, parts and items of hardware used in drilling and completing a well, and those items necessary to deliver acceptable oil, natural gas, and natural gas liquids production to purchasers to the extent installed downstream from the wellhead of any Partnership Well and which are required to be capitalized under applicable provisions of the Code and regulations promulgated under the Code. Such terms may also include similar costs related to the acquisition or operation of Alternative Energy Projects or other energy related assets.

“Third-Party Administrator” means an entity, which may be an affiliate of the Managing General Partner that provides administrative services to the Partnership.

“Treasury” means the United States Department of the Treasury.

“Unit” means the Limited Partner interests in the Partnership purchased by a Participant under, the provisions of Section 3.03, including any rights to profits, losses, income, gain, credits, deductions, cash distributions, or returns of capital, or other attributes of the Units, and also includes the interests of the LLC Members in the LLC.

“U.S. Energy” means U.S. Energy Development Corporation, a New York corporation, whose principal executive offices are located at 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164.

“Westmoreland” means Westmoreland Capital Corporation, whose principal executive offices are located at 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164 and which serves as Dealer-Manager.

“Working Interest” means an interest in an oil and natural gas leasehold which is subject to some portion of the cost of development, operation, or maintenance.

“Workover” means operations on a previously productive well to maintain, restore, or increase production.

In this Agreement:

- (a) any reference to a Recital, exhibit or Section is to the relevant Recital, exhibit or Section and any clause thereunder, and any reference to a clause or paragraph is to the relevant clause or paragraph of the Section;
- (b) the clause headings are included for convenience only and shall not affect the interpretation of this Agreement;

- (c) the singular includes the plural and vice versa;
- (d) any gender or the neuter includes the other genders and the neuter;
- (e) “written” and “in writing” include all modes of representing or reproducing words in visible form, including in the form of an electronic record;
- (f) any requirements as to delivery under this Agreement include delivery in the form of an electronic record;
- (g) any requirements as to execution or signature under this Agreement can be satisfied in the form of an electronic signature;
- (h) any phrase introduced by the terms “including,” “include,” “in particular,” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;
- (i) references to a law or regulation are to be construed as references to such law or regulation as extended, amended or re-enacted from time to time and includes any successor law or regulation;
- (j) references to any document or agreement are to be construed as references to such document or agreement as is in force for the time being and as amended, varied, supplemented, substituted, or novated from time to time;
- (k) references to the Partnership taking any action (including, without limitation, executing any agreements) shall be construed as the Partnership acting through the Managing General Partner.

The Exhibits and Recitals form part of this Agreement and shall have effect as if set out in full in the body of this Agreement and any reference to this Agreement includes the Exhibits and Recitals.

ARTICLE II FORMATION

- 2.01. **Formation.** The parties hereto continue a limited partnership formed as of December 22, 2023, pursuant to the Delaware Revised Uniform Limited Partnership Act (as amended, the “**LP Act**”), on the terms and conditions set forth in this Agreement.
- 2.02. **Certificate of Limited Partnership.** This Partnership was formed pursuant to a Certificate of Limited Partnership, dated as of December 22, 2023, which was executed by the Managing General Partner and filed for recordation in the office of the Secretary of State of the State of Delaware on December 22, 2023 (as amended from time to time, the “**Certificate**”). Amendments to the Certificate of Limited Partnership shall be filed or recorded in the public offices required under the LP Act or deemed advisable in the discretion of the Managing General Partner.
- 2.03. **Name, Principal Office and Residence.**

- (a) **Name.** The name of the Partnership is U.S. Energy Private Capital III LP.
- (b) **Residence.** The residence of the Managing General Partner shall be its principal place of business at 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164, which shall also serve as the principal place of business of the Partnership. The residence of each Participant shall be as set forth on the Subscription Agreement executed by such Participant.

All addresses shall be subject to change on notice to the parties.

- (c) **Agent for Service of Process.** The name and address of the Partnership's agent for service of process shall be The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.
- 2.04. **Purpose.** The Partnership shall primarily engage in all phases of the oil and natural gas business, participate in Alternative Energy Projects, and invest in, acquire, and/or operate other energy related assets (the "**Investment Objective**"). This includes, without limitation, infrastructure development, the acquisition of oil and gas Leases, the acquisition and operation of existing oil and natural gas wells and related energy assets, the production of oil and natural gas, the drilling of oil and gas wells, acquisition of mineral rights, Alternative Energy Project development, and the acquisition and operation of other energy related assets, on the terms and conditions set forth below and of any other proper purpose under the LP Act. The Managing General Partner may not, without the affirmative vote of a Majority in Interest of Partners:
- (a) change the Investment Objective; or
 - (b) cause the Partnership to engage in activities outside the Investment Objective through Joint Ventures with other entities.

ARTICLE III SUBSCRIPTIONS AND FURTHER CAPITAL CONTRIBUTIONS

- 3.01. **Designation of Managing General Partner and Partners.** U.S. Energy shall serve as Managing General Partner and shall be a general partner of the Partnership as defined in the LP Act. The Limited Partners shall be limited partners of the Partnership, as defined in the LP Act, subject to the terms of this Agreement.
- 3.02. **Participants.**
- (a) **Limited Partner at Formation.** The Original Limited Partner has acquired one Unit and has made a Capital Contribution of \$100. On the admission of one or more Limited Partners, the Partnership shall return to the Original Limited Partner its Capital Contribution and shall reacquire its Unit. The Original Limited Partner shall then cease to be a Limited Partner in the Partnership with respect to the Unit.
 - (b) **Offering of Interests.** The Partnership is authorized to admit to the Partnership at the Initial Closing Date, any Interim Closing Date(s), and the Offering Termination Date additional Participants whose Subscription Agreements for Units are accepted,

in whole or in part, by the Managing General Partner to the extent, after the admission of the additional Participants, the total Units do not exceed the number of Units set forth in Section 3.03(c)(1), as such maximum amount may be increased by the Managing General Partner in its sole discretion. The Partnership is also authorized to increase the number of Units held by then existing Participants who purchase additional Units through the DRIP.

- (c) **Admission of Partners and Escrow Account.** No action or consent by the Partners shall be required for the admission of additional Partners under this Agreement or the increase in the number of Units set forth in Section 3.03(c)(1). All subscribers' funds shall be held in the Escrow Account and shall not be released to the Partnership until the receipt of the minimum amount of Subscription Proceeds set forth in Section 3.03(c)(3). Thereafter, Subscriptions may be paid directly to the Partnership's account.

3.03. Subscriptions to the Partnership.

- (a) **Subscriptions by Participants.** A Participant's Subscription to the Partnership shall be the amount set forth in its Subscription Agreement, as accepted by the Managing General Partner.

- (1) **Subscription Price and Minimum Agreed Subscription.** The Subscription price of a Unit in the Partnership shall be \$100,000, payable as set forth in this Agreement. The minimum Subscription per Participant shall be one Unit (\$100,000); *provided, however*, that the Managing General Partner, in its discretion, may accept Subscriptions for partial Units, in \$1,000 increments.

- (b) **Subscriptions by Managing General Partner.**

- (1) **Managing General Partner's Required Subscription.** The Managing General Partner, as a general partner and not as a Participant, shall pay any Costs charged to it as set forth in this Agreement.
 - (2) **Managing General Partner's Optional Subscription.** In addition to the Managing General Partner's required Subscription under Section 3.03(b)(1), the Managing General Partner, as a Participant and not as a general partner, may subscribe for Units under the provisions of Section 3.03(a) and this Section 3.03(b)(2) on the same basis as a Participant under Section 3.03(a).

The Managing General Partner shall not be required to pay the Dealer-Manager Fee, the Sales Commission, the Due Diligence Fee, or the Marketing Expense Fee on Subscriptions received from the Managing General Partner, its officers, directors and Affiliates and Participants who acquire Units through the officers and directors of the Managing General Partner. Accordingly, such Persons may acquire Units for a price that is ninety-two percent (92%) of the amount specified in Section 3.03(a)(1). Furthermore, in such instances, the Managing General Partner may, but shall not be required to, waive its Organization Charge.

Subscription Proceeds from Units purchased by the Managing General Partner, or any of the other Persons described in the preceding paragraph, shall be included in determining if the minimum amount of Subscription Proceeds requirement set forth in Section 3.03(c)(3) has been satisfied.

(c) **Maximum Number of Units, Maximum Number of Participants and Minimum Amount of Subscription Proceeds.**

- (1) **Maximum Number of Units.** The maximum number of Units issued may not exceed 1,000 Units; *provided that*, the Managing General Partner, in its sole discretion, may increase such number up to no more than 1,500 Units. Units purchased through the DRIP shall not be included in the limitations set forth in the preceding sentence
- (2) **Maximum Number of Participants.** The maximum number of Participants shall not exceed 1,999.
- (3) **Minimum Amount of Subscription Proceeds.** The minimum amount of Subscription Proceeds in order to reach the Initial Closing Date and admit Participants to the Partnership shall equal at least \$500,000.

The Managing General Partner, its officers, directors, and Affiliates may purchase the number of Units needed to satisfy the required minimum amount of Subscription Proceeds. If at the Offering Termination Date the minimum amount of Subscription Proceeds has not been received and accepted, then all monies deposited by subscribers shall be promptly returned to them.

The Partnership may break escrow and begin its acquisition or drilling activities in the Managing General Partner's sole discretion on or after receipt and acceptance of the minimum amount of Subscription Proceeds, as set forth in Section 3.03(c).

(d) **Acceptance of Subscriptions.**

- (1) **Discretion by the Managing General Partner.** Acceptance of Subscriptions shall be at the sole discretion of the Managing General Partner. The Managing General Partner may, in its sole discretion, reject any Subscription, in whole or in part, for any reason.
- (2) **Time Period in Which to Accept Subscriptions.** A Participant's Subscription to the Partnership and the Managing General Partner's acceptance of such Subscription shall be evidenced by the execution of a Subscription Agreement by such Participant and countersignature by the Managing General Partner; *provided*, the timing of such Participant's admission to the Partnership shall be governed by Section 3.03(d)(3).

Subscription Agreements shall be accepted or rejected by the Partnership within thirty (30) days of their receipt. If a Subscription is rejected, in whole or in part, then the proportionate amount of the rejected Subscription Proceeds, shall be returned to the Participant promptly.

- (3) **Admission to the Partnership.** A Participant shall be admitted to the Partnership as follows:
- (i) for Subscriptions accepted prior to the Initial Closing Date, not later than fifteen (15) days after such Participant's Subscription Proceeds are released from the Escrow Account and paid to the Partnership; and
 - (ii) for Subscriptions accepted after the Initial Closing Date, not later than the last day of the calendar month in which such Participant's Subscription Agreement was accepted by the Managing General Partner and such Participant's Subscription Proceeds were received by the Partnership.

3.04. Payment of Capital Contributions of the Managing General Partner.

- (a) **Additional Capital Contributions of the Managing General Partner.** In addition to any Capital Contribution required of the Managing General Partner as provided in Section 3.03(b)(1) and any optional Capital Contribution as a Participant as provided in Section 3.03(b)(2), the Managing General Partner shall contribute cash sufficient to pay all Costs charged to it under this Agreement to the extent the Costs exceed its share of undistributed revenues, or alternatively, directly pay such amounts on behalf of the Partnership and be deemed to have contributed such amounts.

These Capital Contributions shall be contributed or deemed contributed by the Managing General Partner at the time the relevant Costs are required to be paid by the Partnership.

- (b) **Minimum Amount of Managing General Partner's Required Contribution.** The Managing General Partner is required to maintain a minimum Capital Account balance equal to a positive Capital Account balance.
- (c) **On Liquidation, the Managing General Partner Must Contribute Deficit Balance in Its Capital Account.** The Managing General Partner shall contribute to the Partnership any deficit balance in its Capital Account on either of the following events:

- (1) the liquidation of the Partnership; or
- (2) the liquidation of the Managing General Partner's entire interest in the Partnership.

Any such deficit balance shall be determined after taking into account all adjustments for the Partnership's taxable year during which the liquidation occurs (other than adjustments made under this requirement), by the end of the taxable year in which its interest in the Partnership is liquidated or, if later, within 90 days after the date of the liquidation.

3.05. Payment of Subscription Proceeds.

- (a) **Payment of Participant Subscription Agreements.** A Participant shall pay the amount designated as the Subscription price on the Participant's Subscription Agreement one hundred percent (100%) in cash at the time of subscribing.
- (b) **LLC.** Qualified Entities and other Participants who so elect may contribute funds to, and on doing so and being accepted by the manager thereof, shall become members of the LLC. The LLC shall, in turn, become a Limited Partner. The LLC shall utilize the net amount of the funds contributed by its members to acquire Units as a Limited Partner and may increase the number of Units to which it subscribes as additional members are admitted to the LLC.

3.06. Partnership Funds.

- (a) **Special Account after the Receipt of the Minimum Amount of Subscription Proceeds.** Following the receipt of the minimum amount of Subscription Proceeds and the release of such Subscription Proceeds from the Escrow Account to the Partnership, the funds of the Partnership shall be held in a separate interest-bearing account maintained for the Partnership and shall not be commingled with funds of any other entity.
- (b) **Investment.**
 - (1) **Investments in Other Entities.** Partnership funds may not be invested in the securities of another Person except in the following instances:
 - (i) investments in Working Interests or undivided Lease interests made in the ordinary course of the Partnership's business;
 - (ii) temporary investments made as set forth in Section 3.06(b)(2);
 - (iii) Joint Ventures (multi-tier arrangements) meeting the requirements of Section 4.03(e)(15);
 - (iv) investments involving less than five percent (5%) of the Partnership's Subscription Proceeds, which are a necessary and incidental part of a property acquisition transaction; and
 - (v) investments in entities established solely to limit the Partnership's liabilities associated with the ownership or operation of property or equipment; *provided*, in these instances duplicative fees and expenses shall be prohibited.
 - (2) **Permissible Investments Before Investment in Partnership Activities.** At any time funds of the Partnership (including Subscription Proceeds) are not invested in the Partnership's operations, the Managing General Partner may invest such funds in income producing short term, highly liquid

investments, in which there is appropriate safety of principal, such as U.S. Treasury Bills.

ARTICLE IV CONDUCT OF OPERATIONS

4.01. Acquisition of Leases, Wells and Related Energy Assets.

(a) Assignment to Partnership.

- (1) **General.** The Managing General Partner shall select, acquire, and assign or cause to be assigned to the Partnership full or partial interests in Leases, the Wells located thereon, if any, mineral interests, related energy assets, and other energy assets by any method customary in the oil and gas industry or alternative energy industry, as applicable, or as otherwise determined by the Managing General Partner in its sole discretion, subject to the terms and conditions set forth below.
- (2) The Partnership shall acquire only Leases or other assets reasonably expected to meet the stated purposes of the Partnership. No Leases or other assets shall be acquired for the purpose of a subsequent sale unless the acquisition would be in the Partnership's best interest, as determined by the Managing General Partner. The Partnership may assign Leases, or interests in Leases, it has acquired previously to unaffiliated third parties at any time if such assignment is in the best interest of the Partnership, as determined by the Managing General Partner. Subsequent sales are intended to be made for full value, which may include an Overriding Royalty Interest that is retained by the Partnership. The compensation the Partnership shall pay for the Leases or other assets shall be based on the fair market value as determined, in good faith, by the Managing General Partner.
- (3) **Federal and State Leases.** The Partnership is authorized to acquire Leases on federal and state lands.
- (4) **Managing General Partner's Discretion as to Terms and Burdens of Acquisition.** Subject to the provisions of Section 4.03(e), the acquisition of Leases or other assets may be made under any terms and obligations, including:

 - (i) any limitations as to the Horizons to be assigned to the Partnership; and
 - (ii) subject to any burdens, as the Managing General Partner deems necessary in its reasonable discretion.
- (5) **The Managing General Partner, the Operator or Their Affiliates' Rights in the Remainder Interests.** To the extent the Partnership does not acquire a full interest in a Lease from the Managing General Partner or its

Affiliates, the remainder of the interest in such Lease may be acquired by the Managing General Partner or its Affiliates. They may either:

- (i) retain and exploit the remaining interest for their own account; or
- (ii) sell or otherwise dispose of all or a part of the remaining interest.

Profits from the exploitation and/or disposition of their acquired interests in the Leases shall be for the benefit of the Managing General Partner or its Affiliates to the exclusion of the Partnership.

- (6) **No Breach of Duty.** Subject to the provisions of Section 4.03(e), acquisition of Leases or other assets from the Managing General Partner, the Operator, or their Affiliates shall not be considered a breach of any obligation owed by the Managing General Partner, the Operator, or their Affiliates to the Partnership or the Participants, *provided, however*, that the Partnership will not acquire any wells that are then operated by the Managing General Partner or that are owned by drilling partnerships previously sponsored by the Managing General Partner.

- (b) **Overriding Royalty Interests.** Neither the Managing General Partner, the Operator nor any Affiliate shall receive an Overriding Royalty Interest on the Lease interests acquired by the Partnership. If any acquired Leases are subject to an existing Overriding Royalty Interest in favor of the Managing General Partner, or Operator, the Partnership's acquisition shall not affect such interest. For any Lease interests that are acquired by the Partnership for the purpose of resale, the Partnership shall use its best efforts to retain an Overriding Royalty Interest when it sells such Lease interests.

- (c) **Title and Nominee Arrangements.**

- (1) **Legal Title.** Legal title to any Lease and asset acquired by the Partnership shall be held on a permanent basis in the name of the Partnership. However, Partnership properties may be held temporarily in the name of:
 - (i) the Managing General Partner;
 - (ii) the Operator;
 - (iii) their Affiliates; or
 - (iv) in the name of any nominee designated by the Managing General Partner, in each case, to facilitate the acquisition of the properties or until such time as any revised consents or preferential rights to purchase are obtained or not exercised.
- (2) **Managing General Partner's Discretion.** The Managing General Partner shall take the steps which are necessary in its best judgment to render title to the Leases, wells, and assets to be acquired by the Partnership acceptable

for the purposes of the Partnership. The Managing General Partner shall be free, however, to use its own commercially reasonable judgment in waiving title requirements that appear in title reports it obtains for the Leases.

The Managing General Partner shall not be liable to the Partnership or to the other parties for any mistakes of judgment; nor shall the Managing General Partner be deemed to be making any warranties or representations, express or implied, as to the validity or merchantability of the title to the Leases or other assets assigned to the Partnership or the extent of the interest covered thereby except as otherwise provided in the Assignment.

- (3) **Commencement of Operations.** The Partnership shall not begin operations on any Lease or other asset acquired by the Partnership unless the Managing General Partner is satisfied that necessary title requirements have been satisfied.

4.02. Conduct of Operations.

- (a) **General.** The Managing General Partner shall establish a program of operations for the Partnership. Subject to the limitations contained in Section 3.03(c)(1) and Section 3.03(c)(2) concerning the maximum Capital Contribution which can be required of a Limited Partner and the maximum number of Participants, the Managing General Partner, and the Limited Partners agree to participate in the program so established by the Managing General Partner.
- (b) **Management.** Subject to the provisions of this Agreement, the Managing General Partner is hereby vested with the absolute and sole right, power and discretion to manage and conduct the business and affairs of the Partnership, to make all decisions affecting the business and affairs of the Partnership, to act for and on behalf of the Partnership, and to take such actions on behalf, and in the name of, the Partnership as it deems necessary or appropriate to accomplish the purposes of the Partnership as set forth herein. Subject to the terms set forth in this Agreement, the Managing General Partner shall have all of the rights and powers of a general partner of a limited partnership under the LP Act and otherwise as provided by law. The Managing General Partner may delegate all or a portion of its material duties and authority pursuant to this Agreement to any Person.
- (c) **General Powers of the Managing General Partner.**
 - (1) **General.** Subject to the provisions of Section 4.01 and Section 4.03, and to any authority which may be granted the Operator under Section 4.02(c)(3)(ii), the Managing General Partner shall have full authority to do all things deemed necessary or desirable by it in the conduct of the business of the Partnership. Without limiting the generality of the foregoing, the Managing General Partner is expressly authorized:
 - (i) to engage in the making of all determinations of which Leases, wells, assets, operations, and businesses will be acquired or participated in by the Partnership, which includes, without limitation:

- (a) which Leases, wells, or other assets are developed and/or abandoned;
 - (b) which Leases or other assets are sold or assigned to other parties, including other investor ventures organized by the Managing General Partner, the Operator, or any of their Affiliates; and
 - (c) which wells, if any, will be drilled if the Partnership acquires any Partnership Wells or interests in Partnership Wells;
- (ii) to engage in the negotiation and execution on any terms deemed desirable in its sole discretion of any contracts, conveyances, or other instruments, considered useful to the conduct of the operations or the implementation of the powers granted it under this Agreement, including, without limitation:
 - (a) the making of agreements for the acquisition of Leases, wells, and/or assets;
 - (b) the making of agreements for the conduct of operations, including marketing of the hydrocarbons produced from the wells, as applicable;
 - (c) the furnishing of equipment, facilities, supplies and materials, services, and personnel; and
 - (d) the exercise of any options, elections, or decisions under those agreements;
- (iii) to engage in the exercise, on behalf of the Partnership or other Persons, in the manner that the Managing General Partner in its reasonable judgment deems best, of all rights, elections, and options granted or imposed by any agreement, statute, rule, regulation, or order;
- (iv) to hold assets of the Partnership in the name of one or more trustees, nominees, other agents or directly or indirectly through one or more Persons;
- (v) subject to the terms of this Agreement, to enter into any credit facility, subscription line, or obtain any other Financing; directly or indirectly borrow money (including mezzanine and bridge loans); execute guarantees, promissory notes, drafts, bills of exchange, and other instruments and evidences of indebtedness or credit enhancements for interim financing; secure any such evidences of indebtedness by mortgages, pledges, charges, or assignment of or security interests in all or any part of property then owned or thereafter acquired, directly or indirectly, by the Partnership

(including the Subscriptions); and refinance, recast, modify, extend, or memorialize any of the obligations of the Partnership; and execute instruments and agreements evidencing and securing all such obligations, in each case, upon such terms and conditions as the Managing General Partner may deem advisable and proper, including (i) to pay Partnership Costs and (ii) to make deposits in lieu of, or in advance of, Capital Contributions;

- (vi) to engage in the making of all decisions concerning the desirability of payment, and the payment or supervision of the payment, of all delay rentals and shut-in and minimum or advance royalty payments;
- (vii) to engage in the selection of full or part-time employees, outside consultants and contractors and the determination of their compensation and other terms of employment, hiring or termination;
- (viii) to engage in the maintenance of insurance for the benefit of the Partnership and other parties as it deems necessary, but in no event materially different in amount or type than that set forth in the Operating Agreement;
- (ix) to engage in the use of the funds and revenues of the Partnership, and the borrowing on behalf of, and the loan of money to, the Partnership, on any terms that are consistent with Section 4.02(e) that it sees fit, for any purpose that is consistent with Section 4.02(e), including without limitation:
 - (a) the conduct or financing, in whole or in part, of the drilling, acquisitions, and other activities of the Partnership;
 - (b) the conduct of additional operations; and
 - (c) the repayment of the borrowings or loans used initially to finance those operations or activities;
- (x) to engage in the disposition, hypothecation, sale, exchange, release, surrender, reassignment, or abandonment of any or all assets of the Partnership (including, without limitation, the Leases, wells, equipment, and production therefrom);
- (xi) to engage in the formation of any further Person, including limited or general partnership, tax partnership, Joint Venture, or other relationship which it deems desirable with any parties who it, in its sole and absolute discretion, selects, including any of its Affiliates;
- (xii) subject to the terms of this Agreement, to make distributions to Participants using cash, securities, or other property;

- (xiii) subject to the limitations in Section 10.07, enter into, and/or cause the Partnership to enter into, Side Letters with any Partner or LLC Member;
- (xiv) to open, maintain and close bank accounts and custodial accounts and to draw checks and other orders for the payment of money;
- (xv) to enter into, and take any action under, any agreements pertaining to the Partnership, with such changes therein and amendments thereto, as the Managing General Partner shall determine in its absolute discretion, exercised in good faith, to be in the interest of the Partnership, including, without limitation, any agreements relating to any Affiliate of the Partnership, any agreements with the auditors, management agreements, or other service provider agreements with respect to any asset of the Partnership (including, without limitation, agreements that provide for incentive compensation), and all other agreements contemplated thereby or related thereto, any amendments or restatements thereof, and any other contract, agreement, or other instrument as the Managing General Partner shall determine to be necessary or desirable to further the purposes of the Partnership, including granting or refraining from granting any waivers, consents, and approvals with respect to any of the foregoing and any matters incident thereto;
- (xvi) to enter into partnerships, consortia, or other similar arrangements, including Joint Ventures (in the form of special purpose vehicles or otherwise), with any Person;
- (xvii) to negotiate and execute any deed, lease, easement, mortgage, deed of trust, mortgage note, promissory note, bill of sale, contract, certificate, option, guaranty, contribution and indemnity agreement, or other instrument in connection with the acquisition, holding, financing, development, construction, management, maintenance, operation, lease, pledge, charge, sale, or other disposition with respect to any of the Partnership's operations;
- (xviii) subject to the terms of this Agreement and the Subscription Agreement, to offer and accept Subscriptions for Units on such terms and conditions as are determined by the Managing General Partner, which acceptance, in whole or in part, shall be within the sole discretion of the Managing General Partner;
- (xix) at any time funds of the Partnership are not invested in any of its operations, to invest such funds (short-term, pending distribution or long-term commitment) in temporary investments;
- (xx) to bring, defend, litigate, or arbitrate legal proceedings at law or in equity; or otherwise compromise, adjust, or settle any such legal proceedings;

- (xxi) to indemnify any Person and to obtain and maintain as a Partnership Cost any and all types of insurance as the Managing General Partner may deem appropriate to protect the assets and interests of the Partnership and Indemnified Persons and to satisfy contractual undertakings of the Partnership, in each case subject to applicable standards and restrictions, if any, as are set forth in this Agreement or are required by the LP Act and any other applicable laws;
- (xxii) to employ, terminate, and replace, on behalf of the Partnership, any and all attorneys, investment banks, accountants, consultants, appraisers, custodians of the assets of the Partnership, or other advisors or agents, on such terms and for such compensation as the Managing General Partner may determine, whether or not such Person may also be an Affiliate of the Managing General Partner or may also be otherwise employed by any Affiliate of the Managing General Partner;
- (xxiii) to make all elections, investigations, evaluations, and decisions, binding the Partnership thereby, that may, in the absolute discretion of the Managing General Partner, be necessary or desirable for the acquisition, management, or disposition of any of the Partnership's assets;
- (xxiv) to establish reserves for contingencies and for any other Partnership purpose and to fund such reserves with any Partnership assets or borrowed funds;
- (xxv) to prepare or cause to be prepared reports, statements, and other information for distribution to the Participants; prepare and file all necessary returns and statements; pay all taxes, assessments, and other impositions applicable to the Partnership and the assets of the Partnership; and withhold amounts with respect thereto from funds otherwise distributable to the Participants;
- (xxvi) to maintain or cause to be maintained records and accounts of all operations and expenditures of the Partnership;
- (xxvii) to determine the accounting methods and conventions to be used in the preparation of any accounting or financial records of the Partnership;
- (xxviii) to determine the operation of producing wells drilled on any Lease acquired by the Partnership, or on a Drill Site which includes any part of a Lease;
- (xxix) to exercise of the rights granted to it under the power of attorney created under this Agreement and the Subscription Agreement;

- (xxx) to take all actions it deems necessary or appropriate so that the assets of the Partnership do not constitute “plan assets” for purposes of ERISA and the Plan Asset Rules; and
 - (xxxi) to incur all Costs and the making of all expenditures in any way related to any of the foregoing.
- (2) **Scope of Powers.** The Managing General Partner’s powers shall extend to any operation participated in by the Partnership or affecting its Leases, wellbores or other property or assets, irrespective of whether or not the Managing General Partner is designated Operator of the operation by any outside Persons participating in the operation.
- (3) **Delegation of Authority.**
 - (i) **General.** The Managing General Partner may subcontract and delegate all or any part of its duties under this Agreement to any entity chosen by it, including an entity related to it. The party shall have the same powers in the conduct of the duties as would the Managing General Partner. The delegation, however, shall not relieve the Managing General Partner of any of its obligations or responsibilities, or any restriction on its activities, in each case, under this Agreement.
 - (ii) **Delegation to Operator.** The Managing General Partner is specifically authorized to delegate any or all of its duties to any Operator by executing the Operating Agreement or, if the Operator is not U.S. Energy, by executing an agreement relating to the operation of the applicable wells or other assets. This delegation shall not relieve the Managing General Partner of its responsibilities under this Agreement.
- (4) **Related Party Transactions.** Subject to the provisions of Section 4.03, any transaction which the Managing General Partner is authorized to enter into on behalf of the Partnership under the authority granted in this Section 4.02, may be entered into by the Managing General Partner with itself or with any other general partner, the Operator, or any of their Affiliates.
- (d) **Additional Powers.** In addition to the powers granted to the Managing General Partner elsewhere in this Agreement, the Managing General Partner, when specified, shall have the following additional express powers set out in this Section 4.02.
 - (1) **Power of Attorney.**
 - (i) **General.** Each Participant appoints the Managing General Partner as its true and lawful attorney-in-fact for it and in its name, place, and stead, and for its use and benefit, from time to time:

- (a) to create, prepare, complete, execute, file, swear to, deliver, endorse, and record any and all documents, certificates, or other instruments required or necessary to:
 - (A) amend this Agreement as authorized under the terms of this Agreement, or to qualify the Partnership as a limited partnership or partnership in commendam and to conduct business under the laws of any jurisdiction in which the Managing General Partner elects to qualify the Partnership or conduct business;
 - (B) consummate any investment; or
 - (C) cause the transfer of a Partner's Units in accordance with the terms of this Agreement;
 - (b) to create, prepare, complete, execute, file, swear to, deliver, endorse, and record any and all instruments, assignments, security agreements, financing statements, certificates, and other documents as may be necessary or advisable from time to time to implement the borrowing powers granted under this Agreement; and
 - (c) to create, prepare, complete, execute, swear to, deliver endorse and record any and all documents, certificates, or other instruments required or necessary to effect the dissolution and termination of the Partnership in accordance with the terms of this Agreement
- (ii) **Further Action.** Each Participant authorizes the attorney-in-fact to take any further action which the attorney-in-fact considers necessary or advisable in connection with any of the foregoing. Each Participant acknowledges that the power of attorney granted under this Section:
- (a) is a special power of attorney coupled with an interest and irrevocable; and
 - (b) shall survive the assignment by the Participant of the whole or a portion of its Units; except when the assignment is of all of the Participant's Units and the purchaser, transferee, or assignee of the Units, with the consent of the Managing General Partner, is admitted as a successor Participant, the power of attorney shall survive the delivery of the assignment for the sole purpose of enabling the attorney-in-fact to execute, acknowledge, and file any agreement, certificate, instrument, or document necessary to effect the substitution.

- (iii) **Power of Attorney to Operator.** The Managing General Partner is hereby authorized to grant a power of attorney to the Operator on behalf of the Partnership.
- (e) **Borrowings and Use of Partnership Revenues.**
 - (1) **Power to Borrow or Use Partnership Revenues.**
 - (i) **General.** If additional funds over the Participants' Capital Contributions are needed for the Partnership operations or with respect to hedging or for any Partnership Costs, then the Managing General Partner may:
 - (a) use Partnership revenues for such purposes;
 - (b) or its Affiliates may advance to the Partnership any funds necessary under Section 4.03(e)(9)(ii); *provided that*, such Persons are not obligated to advance the funds to the Partnership; or
 - (c) borrow from third parties, including by entering into any Financing.
 - (ii) **Limitation on Borrowing.** Financing of the Partnership (other than credit transactions on open account customary in the industry to obtain goods and services) shall be subject to the following limitations:
 - (a) the Financing must be without recourse to the Limited Partners except as otherwise provided in this Agreement; and
 - (b) exclusive of any seller Financing, the aggregate amount that may be borrowed and outstanding under Financings at any one time may not exceed fifty percent (50%) of the greater of (i) the Subscription Proceeds and (ii) the value of its aggregate reserves, as determined by an unaffiliated third-party lender; such Financings shall be calculated at the time such Financing is incurred. .
- (f) **Partnership Representative.**
 - (1) **Designation of Partnership Representative.** The Managing General Partner is designated the Partnership Representative and shall cause the Partnership to appoint an individual eligible to be the "designated individual" for purposes of any administrative proceeding with respect to the Code. The Managing General Partner is authorized to act in this capacity on behalf of the Partnership and the Partners and to take any action, including settlement or litigation, which it in its sole discretion deems to be in the best interest of the Partnership.

- (2) **Costs Incurred by Partnership Representative.** Costs incurred by the Partnership Representative shall be considered a Direct Cost of the Partnership. Such Costs shall be calculated at an hourly rate for employees for the Partnership Representative and at Cost plus ten percent (10%) for materials and third-party services.
- (3) **Notice to Participants of IRS Proceedings.** The Partnership Representative shall notify a Participant of any Partnership administrative proceedings commenced by the Internal Revenue Service and with respect to which the Partnership has received written notice that is, in the reasonable determination of the Managing General Partner, reasonably expected to have a material adverse impact on such Participant, and thereafter shall use commercially reasonable efforts to furnish any such Participant periodic reports on the status of the proceedings.
- (4) **Participant Restrictions.** By executing this Agreement, each Partner expressly authorizes the Partnership Representative and the Partnership to take any action that is reasonably necessary under federal income tax law (as such law may be revised from time to time) to cause the Partnership to make the election set forth in Section 6226(a) of the Code if the Partnership Representative decides to make such election, and expressly agrees to take any action, and furnish the Partnership Representative with any information necessary to give effect to such election. Each Partner hereby severally indemnifies and holds the Partnership, the Partnership Representative harmless for such Partner's respective portion of the financial burden of an any imputed underpayment of tax with respect to the Partnership, each Partner agrees (i) to pay such amount to the Partnership within fifteen (15) days following the Managing General Partner's request for payment (and any failure to pay such amount shall result in interest on such amount calculated at the prime rate plus two percent (2%)) and (ii) that any amounts otherwise distributable to such Partner may be applied in satisfaction of such obligations. Except with the express written consent of the Managing General Partner, each Partner shall be jointly and severally liable with their predecessors in interest, if any, for amounts owed hereunder in respect of any predecessor in interest to such Partner. References in this Section 4.02 to "Partner" or "Partners" shall be deemed to refer to a Partner or Partners, a former Partner or former Partners, and to an assignee or assignees. The provisions contained in this Section 4.02 shall survive the termination of the Partnership and the withdrawal of any Partner.
- (5) **Standard of Care.** To the fullest extent permitted by law, the Managing General Partner shall be subject to those fiduciary duties, as such duties are modified by this Agreement (and it being understood that taking or omitting to take any action that the Managing General Partner was permitted or required to take or omit for its own account pursuant to this Agreement shall not be deemed a breach of a fiduciary duty hereunder), to the Partnership and the Participants (taken as a whole and not individually) that are imposed upon a fiduciary that is a general partner of a limited partnership organized

under the laws of the State of Delaware as such duties may be determined by a Delaware court of competent jurisdiction applying applicable Delaware law.

4.03. General Rights and Obligations of the Participants and Restricted and Prohibited Transactions.

- (a) **Limited Liability of Limited Partners.** Limited Partners shall not be bound by the obligations of the Partnership other than as provided under the LP Act or such Limited Partner's Subscription Agreement. Limited Partners shall not be personally liable for any debts of the Partnership or any of the obligations or losses of the Partnership beyond the respective amount of the Subscription price designated on the Subscription Agreement executed by each respective Limited Partner unless required in such Person's Subscription Agreement.
- (b) **No Management Authority of Participants.** Participants, other than the Managing General Partner if it buys Units, shall have no power over the conduct of the affairs of the Partnership. No Participant, other than the Managing General Partner if it buys Units, shall take part in the management of the business of the Partnership, or have the power to sign for or to bind the Partnership.
- (c) **Reports and Disclosures.**
 - (1) **Quarterly Reports, Annual Reports and Financial Statements.** Beginning with the fourth quarter of 2025, the Partnership shall provide each Participant a quarterly report of income and expenses and any other material Partnership activity.
 - (2) **Tax Information.** The Partnership shall prepare, or supervise the preparation of, and use commercially reasonable efforts to transmit in a timely manner to each Partner (but in no event later than one hundred and twenty (120) days following the close of the Partnership's fiscal year) the information needed for the Participant to file the following:
 - (i) its federal income tax return;
 - (ii) any required state income tax return; and
 - (iii) any other reporting or filing requirements imposed by any governmental agency or authority.

The Partners acknowledge that the Managing General Partner and the Partnership's accountants will require information from third parties in order to comply with the requirements of this Section 4.03(c) and agree that neither shall have liability to the Partnership or the Partners in connection therewith so long as they exercise commercially reasonable efforts in seeking to obtain such information on a timely basis.

- (3) **Annual Valuation of LLC Units.** Commencing with the Partnership's 2026 fiscal year, a valuation of LLC Units, sufficient to satisfy the reporting requirements for Qualified Entity investors, will be prepared by an independent appraiser. Such independent appraiser may, in its discretion, apply various discounts which could result in a valuation that is less than the amount paid for an LLC Unit.
- (4) **Audited Financial Statements.** Commencing with the Partnership's 2026 fiscal year, the Partnership shall have audited financial statements, including a balance sheet and statement of cash flows, prepared by an independent accounting firm for:
 - (i) each of the first five fiscal years commencing with the year during which the Partnership makes its first acquisition; and
 - (ii) any additional or subsequent fiscal year for which the Managing General Partner, in its sole discretion, determines it to be in the best interest of the Partnership.
- (5) **Independent Reserve Report.**
 - (i) The Managing General Partner may, no more frequently than annually, have a reserve report of the Partnership's oil and gas properties prepared by an Independent Expert.
 - (ii) The Managing General Partner shall have the initial reserve report that will be used with respect to Section 6.05 Presentment prepared by an Independent Expert.
- (6) **Cost of Reports.** The cost of all reports described in this Agreement, unless otherwise specifically noted, shall be paid by the Partnership as Partnership Costs.
- (7) **Participant Access to Records.**
 - (i) The Participants and/or their representatives shall be permitted access to all records of the Partnership other than a list of Participants or records governed by contractual, or subject to, confidentiality restrictions. The Participants may inspect and, at such Participant's sole expense, copy any of the records, other than a list of the Participants or applicable records, after giving adequate notice at any reasonable time.
 - (ii) Notwithstanding the foregoing, the Managing General Partner may keep logs, well reports and other drilling and operating data confidential for reasonable periods of time, and information which is proprietary to the Managing General Partner and not the Partnership may be kept confidential. The Managing General Partner may release information concerning the operations of the

Partnership to the sources that are customary in the industry or required by rule, regulation, order of any regulatory body or as the Managing General Partner deems advisable.

- (8) **Required Length of Time to Hold Records.** The Managing General Partner shall maintain and preserve during the term of the Partnership and for six years thereafter all accounts, books, and other relevant documents pertaining to the Partnership. This includes a record that a Participant meets the suitability standards established in connection with an investment in the Partnership.

(d) **Meetings of Partners.**

(1) **Procedure for a Partner Meeting.**

- (i) **Meetings.** Meetings of the Partners may be called as follows:

- (a) by the Managing General Partner; or
- (b) by Partners whose Units equal ten percent (10%) or more of the total Units for any matter for which Partners may vote.

The call for a meeting by Partners shall be deemed to have been made on receipt by the Managing General Partner of a written request from holders of the requisite percentage of Units stating the purpose(s) of the meeting.

- (ii) Meetings may be held, as determined by the Managing General Partner, by means of telephone or video conference or similar communications equipment by means of which all Persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

- (2) **Notice Requirement.** The Managing General Partner shall give written notice to all Participants of any meeting that is called and the purpose of the meeting, which in the case of a meeting called by Partners other than the Managing General Partner such notice shall be given within fifteen (15) days after the receipt of the request. The meeting shall be held on a date not less than thirty (30) days nor more than sixty (60) days after the date of the notice, at a reasonable time and place.

Notwithstanding the foregoing, the date for notice of the meeting may be extended for a period of up to sixty (60) days, if in the opinion of the Managing General Partner the additional time is necessary to permit preparation of proxy or information statements, or other documents required, or the Managing General Partner deems advisable, to be delivered in connection with the meeting by the SEC or other regulatory authorities.

- (3) **May Vote by Proxy.** Partners shall have the right to vote at any Partner meeting either:
- (i) in person; or
 - (ii) by proxy.
- (4) **Special Voting Rights.** At the request of ten percent (10%) in Interest of Partners, the Managing General Partner shall call for a vote by Partners. Each Unit is entitled to one vote on all matters, and each fractional Unit is entitled to that fraction of one vote equal to the fractional interest in the Unit; *provided*, the LLC as a Limited Partner may designate a proportionate share of its Units, as directed by the LLC Members, with respect to any election, vote or waiver. Sixty-five percent (65%) in Interest of Partners may, without the concurrence of the Managing General Partner or its Affiliates, vote to:
- (i) dissolve the Partnership;
 - (ii) remove the Managing General Partner as provided in Section 4.04(a)(13)(i) (except under special circumstances as described in Section 4.04(a)(14) when only a Majority in Interest vote is required);
 - (iii) remove the Operator as provided in Section 4.04(a)(20) (except under special circumstances as described in Section 4.04(a)(21)) and elect a new Operator by the affirmative vote of a Majority in interest of Partners; and
 - (iv) amend this Agreement; *provided, however*, any amendment may not:
 - (a) increase the duties or liabilities of any Participant or the Managing General Partner or increase or decrease the profit or loss sharing or required Capital Contribution of any Participant or the Managing General Partner without the approval of the Participant or the Managing General Partner; and
 - (b) affect the classification of Partnership income and loss for federal income tax purposes without the unanimous approval of all Participants.
- (5) **No Restrictions on Managing General Partner's Voting Rights.** With respect to Units owned by the Managing General Partner or its Affiliates, the Managing General Partner and its Affiliates may vote or consent on all matters including those matters set forth in Section 4.03(d).
- (6) **Restrictions on Limited Partner Voting Rights.** The exercise by the Limited Partners of the rights granted to Partners under Section 4.03(d), except for the special voting rights granted Partners under Section

4.03(d)(4), shall be subject to the prior legal determination that the grant or exercise of the powers will not adversely affect the limited liability of Limited Partners. Notwithstanding the foregoing, if in the opinion of counsel to the Partnership, the legal determination is not necessary under Delaware law to maintain the limited liability of the Limited Partners, then it shall not be required. A legal determination under this paragraph may be made either pursuant to:

- (i) an opinion of counsel, the counsel being independent of the Partnership and selected on the vote of a Majority in Interest of Limited Partners; or
- (ii) a declaratory judgment issued by a court of competent jurisdiction.

(e) **Transactions with the Managing General Partner.**

- (1) **Transfer of Drill Sites to the Partnership.** The Managing General Partner or an Affiliate may sell individual Drill Sites to the Partnership. The Managing General Partner or an Affiliate may in its sole discretion:

- (i) transfer the minimum acreage allowable under law with respect to a Drill Site or utilize a wellbore Assignment for such transfer;
- (ii) retain all Horizons below the anticipated total depth of any Partnership Well; or
- (iii) retain all surrounding Horizons, acreage, or wells for its own account.

- (2) **Transfer of Less than the Managing General Partner's and its Affiliates' Entire Interest.** Subject to Section 4.03(e)(5), a sale to the Partnership of less than all of the ownership of the Managing General Partner's or any of its Affiliates' (excluding another Program in which the interest of the Managing General Partner or any of its Affiliates is substantially similar to or less than their interest in the Partnership) interest in any Drill Site shall not be made unless:

- (a) the interest retained by the Managing General Partner or such Affiliate is a proportionate Working Interest;
- (b) the respective obligations of the Managing General Partner or such Affiliate and the Partnership are substantially the same after the sale of the interest by the Managing General Partner or such Affiliate; and
- (c) the Managing General Partner or such Affiliate's interest in revenues does not exceed the amount proportionate to its retained interest.

- (ii) With respect to its retained interest, the Managing General Partner shall not Farmout a Lease for the primary purpose of avoiding payment of its Costs relating to drilling the Lease. This Section does not prevent the Managing General Partner or any of its Affiliates from subsequently dealing with their retained interest as they may choose with unaffiliated parties or Affiliates.
- (3) **Sale of Undeveloped Leases and Horizons to the Managing General Partner.** The Managing General Partner and its Affiliates, including an affiliated partnership, may only purchase undeveloped Leases, portions of Leases or Horizons (including depth rights) from the Partnership at fair market value, as determined by the Managing General Partner.
- (4) **Transaction Requirements.** Neither the Managing General Partner nor any Affiliate of the Managing General Partner shall sell, transfer, or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except:
 - (i) on terms and conditions that the Managing General Partner believes are fair and reasonable to the Partnership; and
 - (ii) which the Managing General Partner, acting in good faith, believes will primarily benefit the Partnership.

Notwithstanding the foregoing, for purposes of the acquisition of any asset, including but not limited to Lease interests or Partnership Wells, from the Managing General Partner, an Affiliate of the Managing General Partner, or a partnership sponsored by the Managing General Partner or any of its Affiliates, the purchase price shall be the fair market value as determined by the Managing General Partner without independent evaluation or arms-length negotiation. Factors which may be considered in determining fair market value may include (i) the price involved in the sale of comparable leasehold interests in the same geographic area; (ii) geological, geophysical, petrophysical, seismic, and engineering expenses relating to the leasehold acreage; (iii) Lease acquisition expenses, including Costs of acquiring such asset from a third party; (iv) rentals and ad valorem taxes paid to maintain the Lease; (v) interest expense; (vi) administration and overhead expenses; (vii) legal expenses including expenses related to title and environmental examination; and (viii) expenses and Costs related to the leasehold interests or any other related asset, including any Costs incurred in connection with the acquisition of the leasehold, determined using industry standards, as applicable.

- (5) **Sale of Producing Properties or Assets to the Managing General Partner and its Affiliates.** The Partnership may sell producing properties or assets, other than undeveloped Lease interests or well sites, to an Affiliate of the Managing General Partner without the consent of the Participants, *provided that:*

- (i) if the sale is to a fund sponsored by the Managing General Partner or any of its Affiliates, the respective obligations and revenue sharing of all parties to the transaction are substantially the same and the compensation arrangement or any other interest or right of either the Managing General Partner or its Affiliates is the same in each entity or if different, the aggregate compensation of the Managing General Partner or the Affiliate is reduced to reflect the lower compensation arrangement; and
 - (ii) the sale shall be made at fair market value as determined by an Independent Expert.
- (6) **Purchase of Wells from Funds sponsored by the Managing General Partner.** The Partnership may not acquire wells from another fund that was sponsored by the Managing General Partner or wells that are operated by the Managing General Partner.
- (7) **Sale of Assets.** Prior to a Final Terminating Event, any sale of a single asset that (i) has an acquisition cost that exceeds twenty-five percent (25%) of the Partnership's total Subscription Proceeds as of the Offering Termination Date and (ii) has a fair market value, that exceeds twenty-five percent (25%) of the Partnership's net asset value at the time of the proposed sale, as reasonably determined by the Managing General Partner, shall require the consent of a Majority in Interest of Participants.
- (8) **Services.**
 - (i) **Competitive Rates.** The Managing General Partner and its Affiliates shall not render to the Partnership any services nor sell or lease to the Partnership any equipment or related supplies unless the Managing General Partner believes that the compensation, price or rental therefor is fair and reasonable to the Partnership.
 - (ii) If not Disclosed in the Memorandum or this Agreement as a Direct Cost, then services by the Managing General Partner must be described in a separate contract. Any services for which the Managing General Partner or an Affiliate is to receive compensation other than those described in this Agreement or the Memorandum shall be set forth in a written contract which precisely describes the services to be rendered and all compensation to be paid.
- (9) **Loans.**
 - (i) **No Loans from the Partnership.** No loans or advances shall be made by the Partnership to the Managing General Partner or any Affiliate of the Managing General Partner.
 - (ii) **Loans to the Partnership.** Neither the Managing General Partner nor any Affiliate of the Managing General Partner shall loan money

to the Partnership unless (a) the interest charged to the Partnership does not exceed the Managing General Partner's or such Affiliate's interest cost or the interest that would be charged to the Partnership without reference to the Managing General Partner's or such Affiliates' financial abilities or guarantees to unrelated lenders, on comparable loans for the same purpose and (b) no points, other financing charges or fees are charged; although, the actual amount of the charges incurred from third-party lenders may be reimbursed to the Managing General Partner or such Affiliate, in the case of clause (a) and (b), as reasonably determined by the Managing General Partner.

- (10) **No Compensating Balances.** Neither the Managing General Partner nor any Affiliate shall use the Partnership's funds as compensating balances for its own benefit.
- (11) **Future Production.** Neither the Managing General Partner nor any Affiliate shall commit the future production of a well acquired or developed by the Partnership exclusively for its own benefit.
- (12) **Marketing Arrangements.** All benefits from marketing arrangements or other relationships affecting the property of the Managing General Partner or its Affiliates and the Partnership shall be fairly and equitably apportioned, as reasonably determined by the Managing General Partner, according to the respective interests of each in the property.
- (13) **Advance Payments.** Advance payments by the Partnership to the Managing General Partner and its Affiliates are permitted (i) as provided in the Operating Agreement or (ii) otherwise when required or the Managing General Partner deems it advisable to secure the tax benefits of prepaid Intangible Drilling Costs and for a business purpose.
- (14) **No Rebates.** No rebates or give-ups may be received by the Managing General Partner or any of its Affiliates nor may the Managing General Partner or any of its Affiliates participate in any reciprocal business arrangement which would circumvent these guidelines; *provided however*, that if a third-party supplier of services or equipment customarily offers rebates to its customer, the Managing General Partner may deal with such supplier and share any rebates with the Partnership on a pro rata basis.
- (15) **Participation in Other Partnerships.** If the Partnership participates in other partnerships or Joint Ventures (multi-tier arrangements), then the terms of any of these arrangements shall not result in the circumvention of any of the requirements or prohibitions contained in this Agreement, including the following:
 - (i) there shall ultimately be no duplication or increase in Organization and Offering Costs, the Managing General Partner's compensation, Partnership expenses, or other fees and Costs;

- (ii) there shall be no substantive alteration in the fiduciary and contractual relationship between the Managing General Partner and the Participants; and
- (iii) there shall be no diminishment in the voting rights amongst the Partners.

(16) **Roll-Up Limitations.**

- (i) **Requirement for Appraisal and Its Assumptions.** In connection with a proposed Roll-Up, an appraisal of all Partnership assets shall be obtained from an Independent Expert. If the appraisal will be included in a prospectus used to offer securities of a Roll-Up Entity, then the appraisal shall be filed with the SEC and the Administrator as an exhibit to the registration statement for the offering. Accordingly, an issuer using the appraisal shall be subject to liability for violation of Section 11 of the Securities Act of 1933 and comparable provisions under state law for any material misrepresentations or material omissions in the appraisal.

Partnership assets shall be appraised on a consistent basis. The appraisal shall be based on all relevant information, including current reserve estimates prepared by an Independent Expert (independent petroleum consultant), and shall indicate the value of the Partnership's assets as of a date within seven (7) Business Days before the announcement of the proposed Roll-Up transaction. The appraisal shall assume an orderly liquidation of the Partnership's assets over a twelve (12)-month period.

The terms of the engagement of the Independent Expert shall clearly state that the engagement is for the benefit of the Partnership and the Participants. A summary of the independent appraisal, indicating all material assumptions underlying the appraisal, shall be included in a report to the Participants in connection with a proposed Roll-Up.

- (ii) **Rights of Participants Who Vote Against Proposal.** In connection with a proposed Roll-Up, if a Majority in Interest of Partners votes to participate in the proposed Roll-Up, Participants who vote "no" on the proposal shall be offered the choice of:
 - (a) accepting the securities of the Roll-Up Entity offered in the proposed Roll-Up;
 - (b) in the Managing General Partner's sole discretion, remaining a Partner and preserving such Partner's Units in the Partnership; *provided however*, the Partnership shall be dissolved following the affirmative vote of a Majority in Interest of Partners to participate in the Roll-Up will; or

- (c) receiving cash in an amount equal to the Participants' pro rata share of the appraised value of the net assets of the Partnership.
- (iii) **No Roll-Up If Diminishment of Voting Rights.** The Partnership shall not participate in any proposed Roll-Up which, if approved, would result in the diminishment of any Partner's voting rights under the Roll-Up Entity's chartering agreement as compared to this Agreement; *provided*, a change to such Person's ownership interest percentage in the Roll-Up Entity and related voting rights as compared to the Partnership shall not constitute a diminishment of such Person's voting rights.

In no event shall the voting and governance rights of Partners in the Roll-Up Entity be less than those provided for under Section 4.03(d)(1) and Section 4.03(d)(4). If the Roll-Up Entity is a corporation, then the voting and governance rights of Partners shall correspond to the voting and governance rights provided for in this Agreement to the greatest extent possible. In no event shall the right of access to the records of the Roll-Up Entity be less than those provided in this Agreement, subject to legal, regulatory or similar considerations.
- (iv) **No Roll-Up If Accumulation of Shares Would be Impeded.** The Partnership shall not participate in any proposed Roll-Up transaction which includes provisions which would operate to materially impede or frustrate the accumulation of shares by any purchaser of the securities of the Roll-Up Entity (except to the minimum extent necessary to preserve the tax status of the Roll-Up Entity or as required by law).

The Partnership shall not participate in any proposed Roll-Up transaction which would limit the ability of a Participant to exercise the voting rights of its securities of the Roll-Up Entity on the basis of the number of Units held by that Participant unless such limitation is based on law or regulation.
- (v) **No Roll-Up If Access to Records Would Be Limited.** The Partnership shall not participate in a Roll-Up in which Participants' rights of access to the records of the Roll-Up Entity will be less than those provided for under Section 4.03(c)(7).
- (vi) **Cost of Roll-Up.** The Partnership shall not participate in any proposed Roll-Up transaction in which any of the Costs of the transaction would be borne by the Partnership if a Majority in Interest of Partners does not vote to approve the proposed Roll-Up.

(vii) **Roll-Up Approval.** The Partnership shall not participate in a Roll-Up transaction unless the Roll-Up transaction is approved by a Majority in Interest of Partners.

(17) **Disclosure of Binding Agreements.** As of the date of this Agreement, any agreement or arrangement which binds the Partnership in a material manner is disclosed or referenced in the Memorandum.

4.04. Designation, Compensation, and Removal of Managing General Partner and Removal of Operator.

(a) Managing General Partner.

(1) **Term of Service.** U.S. Energy shall serve as the Managing General Partner of the Partnership until either it:

(i) is removed pursuant to Section 4.04(a)(13) or Section 4.04(a)(14); or

(ii) withdraws pursuant to Section 4.04(a)(18).

(2) **Compensation of Managing General Partner.** In addition to the compensation set forth in Section 4.04(a)(16) and Section 5.01, the Partnership shall pay to the Managing General Partner and its Affiliates the compensation set forth in Section 4.04(a)(4) through Section 4.04(a)(12) in each case to the extent applicable.

(3) **Charges Must Be Necessary or Advisable.** The Managing General Partner must believe that all charges not set forth in this Agreement by the Managing General Partner and its Affiliates for goods and services are necessary or advisable, and on terms that are fair and reasonable to the Partnership.

(4) **Direct Costs.** The Managing General Partner shall be reimbursed for all Direct Costs paid by it or its Affiliates on behalf of the Partnership. Notwithstanding the foregoing, Direct Costs shall be billed directly to and paid by the Partnership to the extent practicable.

(5) **Administrative Costs.** If a Third-Party Administrator is engaged to provide administrative services for the Partnership, the charges by the Third-Party Administrator for its services shall be treated as Direct Costs and shall be paid, as such, by the Partnership. An Affiliate of the Managing General Partner has been engaged as a Third-Party Administrator.

(6) **Third-Party Compression, Treating, Transportation, and Gathering Fees.** If a third-party's (including an entity sponsored by the Managing General Partner or an entity in which an entity sponsored by the Managing General Partner has an interest) pipeline, treating, and/or compression facilities are used to market oil or gas produced from the Partnership Wells, the Partnership will pay the third party the applicable fees, including if applicable a marketing fee, based upon market rates. If the Managing

General Partner's pipeline, treating, and/or compression facilities are used by the Partnership, in addition to, or instead of, a third-party's facilities, compression, treating, transportation, and/or gathering fees may be paid to the Managing General Partner, and the fees may be increased in the Managing General Partner's sole discretion to a rate that the Managing General Partner believes is fair and reasonable to the Partnership, at any subsequent time. These fees will be proportionately reduced to the extent the Partnership acquires less than one hundred percent (100%) of the interest in the wells.

- (7) **Dealer-Manager Fee.** Subject to Section 3.03(b)(2), to the extent allowed by law, the Dealer-Manager or such other Selling Agents selected by the Managing General Partner may receive from the Managing General Partner on each Unit sold to investors:

- (i) A Dealer-Manager Fee of up to one and one-half percent (1.5%);
- (ii) a Sales Commission which shall not exceed five and one-half percent (5.5%);
- (iii) a due diligence fee of up to one-half percent (0.5%) (the “**Due Diligence Fee**”); *provided that*, in some instances the due diligence fee may be increased if the Sales Commission and/or Marketing Expense Fee is correspondingly reduced; and
- (iv) a marketing expense fee of up to one-half percent (0.5%) (the “**Marketing Expense Fee**”).

The Managing General Partner and/or the Dealer-Manager may recoup due diligence fees and disbursements charged to them by a broker-dealer by deducting such amounts from any Due Diligence Fee payable to that broker-dealer from Unit sales and may recoup marketing expense fees and disbursements charged to them by a broker-dealer from any Marketing Expense Fees otherwise payable to that broker-dealer from Unit sales.

The Sales Commission, Due Diligence Fee, Marketing Expense Fee, and Dealer-Manager Fee shall be paid by the Partnership and the Managing General Partner from the applicable Subscription Proceeds as part of the Organization and Offering Costs as provided in Section 5.01(a)(1).

The Managing General Partner will also receive a payment equal to three-tenths of one percent (0.3%) of the price of each Unit sold, which shall be considered an Organization and Offering Cost, for its efforts with respect to organization of the Partnership and the Offering (the “**Organization Charge**”).

- (8) **Management Fee.** The Managing General Partner shall receive a management fee to compensate the Managing General Partner for Administrative Costs and related services it provides to the Partnership.

Such fee shall commence on the date that the first Limited Partner not Affiliated with the Managing General Partner is admitted to the Partnership. The Management Fee shall be calculated and paid quarterly and shall be one-half percent (0.5%) (which is an annual rate of two percent (2%)) of the total paid to the Partnership for Units (i.e., the gross Subscription Proceeds) plus the net amount of any borrowings by the Partnership for Partnership purposes.

- (9) **Operating Agreement.** The Managing General Partner and its Affiliates may receive compensation as set forth in the Operating Agreement if they operate wells or other assets for the Partnership.
- (10) **Other Partnership Costs.** Subject to Section 5.02(a), the Partnership shall directly pay or, to the extent incurred by the Managing General Partner or its Affiliates on behalf of the Partnership, promptly reimburse the Managing General Partner for all Partnership Costs not otherwise addressed in this Section 4.04; *provided that*, no Partnership Costs charged to the Partnership under this Section 4.04(a)(10) shall be duplicative of any amount charged under any other category of Cost or expense; *provided further*, such Costs and expenses shall not include Claims and Expenses for which the Managing General Partner is not otherwise entitled to be indemnified pursuant to this Agreement.
- (11) **Share of Partnership Net Revenues.** U.S. Energy may receive a percentage of Partnership net revenues, if the Limited Partners receive cumulative distributions that achieve a specified level of return or if there is a sale of a Partnership asset that results in a special distribution to the Limited Partners (i.e., a distribution beyond the Cash Distribution Policy amounts), as follows:
 - (i) if Limited Partners receive cumulative distributions which total the amount of net Subscription Proceeds (i.e. the amount invested less commissions and fees) from the Limited Partners plus a rate of return of eight percent (8%) of the net Subscription Proceeds from that Limited Partner, per annum. When that level of return is achieved, the Managing General Partner shall thereafter receive twenty-five percent (25%) of Partnership net revenues, and the Limited Partners shall thereafter receive seventy-five percent (75%) of the Partnership's net revenues, which shall be distributed in accordance with the Cash Distribution Policy. Distributions applied to the purchase of additional Units through the DRIP shall be included in the calculation of cumulative distributions to Limited Partners. U.S. Energy's right to receive payments pursuant to this Section will not be affected if it is terminated as Managing General Partner; or
 - (ii) if the Partnership sells an asset and, as a result of such sale, the Managing General Partner determines to make a special distribution (i.e. distribution in addition to, and separate from, distributions

pursuant to the Cash Distribution Policy), the Managing General Partner may also elect to share in the net revenues from such asset, in which case an amount equal to the purchase price of the asset plus all costs incurred in purchasing or acquiring the asset plus eight percent (8%) per annum of the total of the purchase price and associated costs from the date of purchase to the date of sale of the asset shall be allocated to the Limited Partners, and the Limited Partners shall receive seventy-five percent (75%) and the Managing General Partner shall receive twenty-five percent (25%) of all other amounts received by the Partnership from such asset, or interest in such asset, from the date of its acquisition to the date of its sale.

(12) **Other Transactions.** The Managing General Partner and its Affiliates may enter into transactions under Section 4.03(e)(8) with the Partnership and shall be entitled to compensation under that Section.

(13) **Removal of Managing General Partner.**

(i) **Sixty-Five Percent (65%) Vote Required to Remove the Managing General Partner.** Except as provided in Section 4.04(a)(14), the Managing General Partner may be removed at any time upon 60 days' advance written notice to the outgoing Managing General Partner, by the affirmative vote of sixty-five percent (65%) in Interest of Partners. If Partners vote to remove the Managing General Partner from the Partnership, then Partners must elect by an affirmative vote of Majority in Interest of Partners either to:

- (a) terminate, dissolve, and wind up the Partnership; or
- (b) continue as a successor limited partnership under all the terms of this Agreement, as provided in Section 7.01(c).

If the Partners elect to continue as a successor limited partnership, then the Managing General Partner shall not be removed until a substituted Managing General Partner has been selected by an affirmative vote of a Majority in Interest of Partners and installed as such.

(14) **Majority in Interest of Partners Vote Required to Remove the Managing General Partner Under Special Circumstances.** The Managing General Partner may be removed upon thirty (30) days' advance written notice to the outgoing Managing General Partner, by the affirmative vote of a Majority in Interest of Partners if (1) the Managing General Partner files a petition or request for liquidation, reorganization, adjustment of debts, arrangement, adjudication as a bankrupt or similar relief under the bankruptcy, insolvency, or similar laws of the United States of America or any state or territory thereof; consents to the filing of a petition in any bankruptcy, liquidation or insolvency proceeding; consents to the appointment of a receiver, trustee, agent, or officer performing similar

functions with respect to any substantial part of its assets; makes a general assignment for the benefit of its creditors; or institutes or consents to any other type of insolvency proceeding; or (2) a receiver, custodian, trustee, or officer performing similar functions is appointed for the Managing General Partner; or a request or petition for liquidation, reorganization, arrangement, or adjudication as a bankrupt or other relief under the bankruptcy, insolvency or similar laws of the United States of America or any state or territory thereof is filed against the Managing General Partner; and such appointment is not vacated or such petition or proceeding is not dismissed within sixty (60) days after such appointment, filing or institution. If the Partners vote to remove the Managing General Partner from the Partnership pursuant to this clause, then a Majority in Interest of Partners must affirmatively elect either to:

- (i) terminate, dissolve, and wind up the Partnership; or
- (ii) continue as a successor limited partnership under all of the terms of this Agreement as provided in Section 7.01(c).

If the Partners elect to continue as a successor limited partnership, the Managing General Partner shall not be removed until a substituted Managing General Partner has been selected by an affirmative vote of a Majority in Interest of Partners and installed as such.

- (15) **Valuation of Managing General Partner's Interest in the Partnership.** If the Managing General Partner is removed, then the value of Managing General Partner's interest in the Partnership shall be determined by appraisal by an Independent Expert. The Independent Expert shall be selected by mutual agreement between the removed Managing General Partner and the incoming Managing General Partner. The appraisal shall take into account an appropriate discount, to reflect the risk of recovery of oil and natural gas reserves, but not less than that utilized in the most recent presentment offer, if any.

The cost of the appraisal shall be borne by the Partnership.

- (16) **Method of Payment.** The method of payment to the Managing General Partner shall be as follows:
- (i) when the termination is voluntary or pursuant to Section 4.04(a)(14), the method of payment shall be a non-interest bearing unsecured promissory note with principal payable, if at all, from distributions which the Managing General Partner otherwise would have received under this Agreement had the Managing General Partner not been terminated; and
 - (ii) when the termination is pursuant to Section 4.04(a)(13)(i), the method of payment shall be either (a), (b), or (c) below as determined by the incoming Managing General Partner:

- (a) the Partnership pays one hundred percent (100%) cash; or
- (b) the substitute Managing General Partner pays one hundred percent (100%) cash; or
- (c) the Partnership and/or the substitute Managing General Partner give a promissory note for five years with the interest rate being an amount equal to the prime rate on the date of termination as published by The Wall Street Journal, and requiring quarterly payments of principal and interest.

- (17) **Termination of Contracts.** The removed Managing General Partner, at the time of its removal shall cause, to the extent it is legally possible, its successor to be transferred or assigned all of its rights, obligations, and interests as Managing General Partner of the Partnership in contracts entered into by it on behalf of the Partnership. In any event, the removed Managing General Partner and any substitute Managing General Partner shall use their best efforts to cause the rights, obligations, and interests of the removed Managing General Partner as Managing General Partner of the Partnership in any such contract to terminate at the time of its removal.

Notwithstanding any other provision in this Agreement, the Partnership or the successor Managing General Partner shall not:

- (i) be a party to any natural gas purchase agreement that U.S. Energy or its Affiliates enters into with a third-party or have any rights pursuant to any natural gas purchase agreement; and
- (ii) receive any interest in U.S. Energy's and its Affiliates' pipeline or gathering system or treating or compression facilities other than the right to transport natural gas which, at U.S. Energy's election, may be subject to a rate that the Managing General Partner believes is fair and reasonable to the Partnership for the use of the gathering and transmission lines on the Partnership Wells.

- (18) **The Managing General Partner's Right to Voluntarily Withdraw.** At any time beginning five (5) years after the later of the (i) Offering Termination Date and (ii) date the Partnership's primary acquisition and drilling activities commenced, the Managing General Partner may voluntarily withdraw as Managing General Partner on giving one hundred and twenty (120) days' written notice of withdrawal to the Participants. If the Managing General Partner withdraws, then the following conditions shall apply:

- (i) the Managing General Partner's interest in the Partnership shall be treated as if it was removed pursuant to Section 4.04(a)(14); and

- (ii) the Managing General Partner's interest in the Partnership shall be valued in accordance with Section 4.04(a)(15) and distributed in accordance with Section 4.04(a)(16)(i).

The Managing General Partner may also voluntarily withdraw as Managing General Partner as described in Section 6.03. On the voluntary withdrawal of the Managing General Partner under either this Section or Section 6.03, a substituted Managing General Partner may be selected by an affirmative vote of a Majority in Interest of Partners and installed as such; *provided*, if within sixty (60) days of the Managing General Partner's withdrawal, a Majority in Interest of Partners doesn't appoint a successor Managing General Partner, the Partnership shall be terminated.

- (19) **The Managing General Partner's Right to Withdraw Property Interest.** The Managing General Partner has the right at any time to withdraw a property interest held by the Partnership in the form of a Working Interest in the Partnership Wells or other assets equal to or less than its respective interest in the revenues of the Partnership under the conditions set forth in Section 6.03.

If the Managing General Partner withdraws an interest, then:

- (i) it shall fully indemnify the Partnership against any additional expenses which may result from a partial withdrawal of its interests;
- (ii) the withdrawal may not result in a greater amount of Direct Costs or Administrative Costs being allocated to the Participants; and
- (iii) the expenses of withdrawing shall be borne by the withdrawing Managing General Partner.

Distributions of revenues to the Managing General Partner shall be appropriately adjusted to reflect such withdrawal.

- (20) **Sixty-Five Percent (65%) Vote Required to Remove Operator.** To the extent that the Operator is the Managing General Partner or an Affiliate thereof, pursuant to the Operating Agreement, the Operator may be removed and a new Operator may be substituted at any time on sixty (60) days' advance written notice to the outgoing Operator by the Managing General Partner acting on behalf of the Partnership on the affirmative vote sixty-five percent (65%) in Interest of Partners.

The Operator shall not be removed until a substituted Operator has been selected by an affirmative vote of a Majority in Interest of Partners and installed as such, and such Operator has entered into an operating agreement substantially in the form of the Operating Agreement.

- (21) **Majority in Interest of Partners Vote Required to Remove Operator Under Special Circumstances.** The Operator may be removed on thirty

(30) days' advance written notice to the Operator, by the affirmative vote of a Majority in Interest of Partners if (a) the Operator files a petition or request for liquidation, reorganization, adjustment of debts, arrangement, adjudication as a bankrupt or similar relief under the bankruptcy, insolvency, or similar laws of the United States of America or any state or territory thereof; consents to the filing of a petition in any bankruptcy, liquidation, or insolvency proceeding; consents to the appointment of a receiver, trustee, agent, or officer performing similar functions with respect to any substantial part of its assets; makes a general assignment for the benefit of its creditors; or institutes or consents to any other type of insolvency proceeding; or (b) a receiver, custodian, trustee, or officer performing similar functions is appointed for the Operator; or a request or petition for liquidation, reorganization, arrangement, or adjudication as a bankrupt or other relief under the bankruptcy, insolvency or similar laws of the United States of America or any state or territory thereof, is filed against the Operator, and such appointment is not vacated or such petition or proceeding is not dismissed within sixty (60) days after such appointment, filing or institution; or (c) the Managing General Partner is removed pursuant to Section 4.04(a)(14). *Provided that*, the Operator shall not be removed until a substituted Operator has been selected by an affirmative vote of a Majority in Interest of Partners and installed as such.

4.05. **Indemnification and Exoneration.**

- (a) **Standards for the Managing General Partner Not Incurring Liability to the Partnership or Participants.** The Indemnified Persons shall not have any liability whatsoever to the Partnership or to any Participant for any loss suffered by the Partnership or Participants which arises out of any action or inaction of such Indemnified Person if the course of conduct did not constitute gross negligence or willful misconduct; *provided that*, the foregoing shall not relieve the Indemnified Person from liability for Claims and Expenses to the extent that it is determined in a final, binding, and non-appealable determination of a court of competent jurisdiction to be attributable to such Indemnified Person's gross negligence or willful misconduct.
- (b) **Standards for Indemnification.** Each Indemnified Person shall be indemnified by the Partnership against any Claims and Expenses incurred by reason of any action taken or omitted to be taken by such Indemnified Person in any way related to or arising out of this Agreement or any of the Partnership's operations, *provided that*:
 - (1) such Indemnified Person was acting on behalf of, or performing services for, the Partnership or its investments; and
 - (2) no Indemnified Person shall be entitled to indemnification to the extent it shall have been determined in a final, binding, and non-appealable determination of a court of competent jurisdiction that the Claims and Expenses are attributable to such Indemnified Person's gross negligence or willful misconduct.

Payments arising from such indemnification or agreement to hold harmless are recoverable out of the tangible net assets of the Partnership, revenues from operations and any insurance proceeds.

- (c) **Standards for Securities Law Indemnification.** Notwithstanding anything to the contrary contained in the above, an Indemnified Person and any Person acting as a broker-dealer shall not be indemnified for any losses, liabilities, or expenses, arising from or out of an alleged violation of federal or state securities laws by that party unless:

- (1) there has been a successful adjudication on the merits of each count involving alleged securities law violations in favor of such Indemnified Person;
- (2) the claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to such Indemnified Person; or
- (3) a court of competent jurisdiction approves a settlement of the claims against such Indemnified Person and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the SEC with respect to the issue of indemnification for violations of securities laws.

- (d) **Standards for Advancement of Funds to Indemnified Persons and Insurance.** The advancement of Partnership funds to an Indemnified Person for Claims and Expenses incurred as a result of any legal action for which indemnification is being sought is permissible only if the Partnership has adequate funds available and the following conditions are satisfied:

- (1) the legal action relates to acts or omissions with respect to the performance of duties or services on behalf of the Partnership or its investments;
- (2) the legal action is initiated by a third-party who is not a Participant, or the legal action is initiated by a Participant and a court of competent jurisdiction specifically approves the advancement; and
- (3) the Managing General Partner or its Affiliates undertake to repay the advanced funds to the Partnership, together with the applicable legal rate of interest thereon, in cases in which the party is found not to be entitled to indemnification.

The Partnership shall not bear the cost of that portion of insurance which insures the Indemnified Person for any liability for which they could not be indemnified under Section 4.05.

- (e) **Order of Payment of Claims.** Claims shall be paid as follows:

- (1) first, out of any insurance proceeds;

- (2) second, out of the assets and revenues of the Partnership; and
- (3) last, by the Managing General Partner.

No Limited Partner shall be required to reimburse the Managing General Partner, the Operator, or their Affiliates for any liability in excess of its agreed Capital Contribution, except:

- (1) for a liability resulting from the Limited Partner's unauthorized participation in Partnership management; or
 - (2) from some other breach by such Limited Partner of this Agreement or its Subscription Agreement.
- (f) **Authorized Transactions Are Not Deemed to Be a Breach.** No transaction entered into or action taken by the Partnership or the Managing General Partner, the Operator, or their Affiliates, which is authorized by this Agreement to be entered into or taken with the party shall be deemed a breach of any obligation owed by the Managing General Partner, the Operator, or their Affiliates to the Partnership or the Participants.
- (g) **Survival of Indemnification and Exoneration Protections.** The provisions of this Section 4.05 shall (1) survive termination of this Agreement and (2) continue to afford protection to each Indemnified Person regardless of whether such Indemnified Person remains in the position or capacity pursuant to which such Indemnified Person became entitled to indemnification under this Section 4.05 and regardless of any subsequent amendment to this Agreement; *provided that*, no such amendment shall reduce or restrict the extent to which these indemnification and exoneration provisions apply to actions taken or omissions made prior to the date of such amendment. For the avoidance of doubt, the Managing General Partner is authorized to enter into any agreement with any Indemnified Person as the Managing General Partner deems appropriate or necessary to give effect to the indemnification provision of this Agreement.

4.06. **Other Activities.**

- (a) **The Managing General Partner May Pursue Other Oil and Natural Gas and Other Business Activities for Its Own Account.** The Managing General Partner, the Operator, and their Affiliates are now engaged, and will engage in the future, for their own account and for the account of others, including other investors, in all aspects of the oil and natural gas business. This includes without limitation, the evaluation, acquisition, and sale of producing and nonproducing Leases, the exploration for and production of oil, natural gas, and other minerals, and the acquisition and management of real estate.

The Managing General Partner is required to devote only so much of its time as is necessary to manage the affairs of the Partnership, as it reasonably determines. Except as expressly provided to the contrary in this Agreement, and subject to their fiduciary duties as modified by this Agreement, the Managing General Partner, the

Operator, and their Affiliates may do the following:

- (1) continue their activities, or initiate further activities, individually, jointly with others, or as a part of any other limited or general partnership, tax partnership, Joint Venture, or other entity or activity to which they are or may become a party; in any locale and in the same fields or Horizons, areas of operation, or prospects in which the Partnership may likewise be active;
- (2) reserve partial interests in Leases being sold and assigned to the Partnership or any other interests not expressly prohibited by this Agreement;
- (3) deal with the Partnership as independent parties or through any other entity in which they may be interested;
- (4) conduct business with the Partnership as set forth in this Agreement and/or the Memorandum; and
- (5) participate in other investments or investor operations, as investors or otherwise.

The Managing General Partner and its Affiliates shall not be required to permit the Partnership or the Participants to participate in any such operations or business opportunities in which they may be interested or share in any profits or other benefits from such operations or opportunities.

- (b) **Managing General Partner May Manage Multiple Investment Platforms.** The Managing General Partner or its Affiliates may manage multiple Programs and investment platforms simultaneously. Such management of multiple Programs and investment platforms simultaneously could be competitive with one another or could create other conflicts of interest which the Managing General Partner will attempt to resolve in an equitable manner.
- (c) **Partnership Has No Interest in Natural Gas Contracts or Pipelines and Gathering Systems.** Notwithstanding any other provision in this Agreement, the Partnership shall not be a party to any natural gas supply agreement that the Managing General Partner, the Operator, or their Affiliates enter into with a third-party and shall not have any rights under the natural gas supply agreement.

ARTICLE V

PARTICIPATION IN COSTS AND REVENUES, CAPITAL ACCOUNTS, ELECTIONS, AND DISTRIBUTIONS

5.01. **Participation in Costs and Revenues.** Except as otherwise provided in this Agreement, Costs and revenues shall be charged and credited to the Managing General Partner and the Participants as set forth in this Section and Section 4.04(a)(2).

- (a) **Costs.** Costs shall be allocated as set forth below.

- (1) **Organization and Offering Costs.** Up to eight and three-tenths percent (8.3%) of the amount invested by each Participant will be applied to the payment of the Dealer-Manager Fee, the Sales Commission, the Due Diligence Fee, the Marketing Expense Fee and the Organization Charge. All other Organization and Offering Costs, once known, will be billed to and paid by the Partnership up to a maximum of one and one-half percent (1.5%) of Subscription Proceeds if less than \$50,000,000 is raised or one percent (1%) of Subscription Proceeds if \$50,000,000 or more is raised.
- (b) **Revenues.** Revenues of the Partnership from all sources and wells shall be commingled and credited as set forth in Section 4.04(a)(9).
- (c) **Allocations.**
 - (1) **Allocations among Participants.** Except as provided otherwise in this Agreement, revenues, gains, income, costs, expenses losses and other charges and liabilities charged or credited to the Participants as a group shall be allocated among the Participants, including the Managing General Partner to the extent of any optional additional Subscription under Section 3.03(b)(2), in the ratio of their respective Units. All Participants whose Subscriptions have been accepted by the 15th of the month preceding a distribution shall participate on a pro rata basis. Such calculation shall be separately made for each distribution.
 - (2) **Costs and Revenues Not Directly Allocable to a Partnership Well, Energy Related Asset or Operation.** Costs and revenues not directly allocable to a particular Partnership Well, energy related asset, or additional operation shall be allocated among the Partnership Wells, energy related assets, or additional operations in any manner the Managing General Partner in its reasonable discretion, shall select, and shall then be charged or credited in the same manner as costs or revenues directly applicable to the Partnership Well, energy related asset, or additional operation are being charged or credited.
 - (3) **Managing General Partner's Discretion in Making Allocations For Federal Income Tax Purposes.** In determining the proper method of allocating charges or credits among the parties, or in making any other allocations under this Agreement, the Managing General Partner may adopt any method of allocation which it, in its reasonable discretion, selects, if, in its sole discretion based on advice from its legal counsel or accountants, a revision to the allocations is required for the allocations to be recognized for federal income tax purposes either because of the promulgation of Treasury Regulations or other developments in the tax law. Any new allocation provisions shall be provided by an amendment to this Agreement and shall be made in a manner that would result in the most favorable aggregate consequences to the Participants as nearly as possible consistent with the original allocations described in this Agreement.

5.02. Capital Accounts.

- (a) **Capital Accounts.** A single, separate Capital Account shall be established for each party to this Agreement. Participants shall not be required to restore any deficit balances in their Capital Accounts except as set forth in Section 3.04(c).

A Partner's Capital Account will be increased by (i) such Partner's Capital Contributions, and (ii) the income and gain the Partner is allocated by the Partnership, including any income and gain that is exempted from tax and including any income and gain described in the Treasury Regulations Section 1.704-1(b)(2)(iv)(g).

A Partner's Capital Account will be decreased by (i) the amount of money distributed to the Partner by the Partnership, (ii) the net value of any property distributed to the Partner by the Partnership (i.e., the fair market value of the property next of any liabilities secured by the property that the Partner is considered to assume or take subject to under Section 752 of the Code), (iii) any expenditures of the Partnership described in Section 705(a)(2)(B) of the Code (i.e., that cannot be capitalized or deducted in computing taxable income) that are allocated to the Partner, and (iv) losses and deductions that are allocated to the Partner.

- (b) **Payments to the Managing General Partner.** The Capital Account of the Managing General Partner shall be reduced by payments to it under Section 4.04(a)(2) only to the extent of the Managing General Partner's distributive share of any Partnership deduction, loss, or other downward Capital Account adjustment resulting from the payments.
- (c) **Discretion of Managing General Partner in the Method of Maintaining Capital Accounts.** Notwithstanding any other provisions of this Agreement, the method of maintaining Capital Accounts may be changed from time to time, in the discretion of the Managing General Partner, to take into consideration Section 704 and other provisions of the Code and such rules, regulations and interpretations relating thereto as may exist from time to time.
- (d) **Revaluations of Property.** In the discretion of the Managing General Partner the Capital Accounts of the Partners may be increased or decreased to reflect a revaluation of Partnership property, including intangible assets such as goodwill, (on a property-by-property basis except as otherwise permitted under Section 704(c) of the Code and the regulations thereunder) on the Partnership's books, in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv)(f).
- (e) **Amount of Book Items.** In cases where Section 704(c) of the Code or Section 5.02(b) applies, Capital Accounts shall be adjusted in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv)(g) for allocations of depreciation, depletion, amortization and gain and loss, as computed for book purposes, with respect to the property.

5.03. Regulatory Allocations.

- (a) **Deficit Capital Accounts and Qualified Income Offset.** Notwithstanding any provisions of this Agreement to the contrary, an allocation of loss or deduction which would result in a Partner having a deficit Capital Account balance as of the end of the taxable year to which the allocation relates, if charged to the Partner, (to the extent the Partner is not required to restore the deficit to the Partnership), taking into account:
- (1) adjustments that, as of the end of such year, reasonably are expected to be made to the Partner's Capital Account for depletion allowances with respect to the Partnership's oil and natural gas properties;
 - (2) allocations of loss and deduction that, as of the end of such year, reasonably are expected to be made to the Partner pursuant to Sections 704(e)(2) and 706(d) of the Code and Treasury Regulations Section 1.751-1(b)(2)(ii); and
 - (3) distributions that, as of the end of such year, reasonably are expected to be made to the Partner to the extent they exceed offsetting increases to the Partner's Capital Account (assuming for this purpose that the fair market value of Partnership property equals its adjusted tax basis) that reasonably are expected to occur during (or prior to) the Partnership taxable years in which the distributions reasonably are expected to be made, shall be charged to the Managing General Partner. Further, the Managing General Partner shall be credited with an additional amount of Partnership income or gain equal to the amount of the loss or deduction as quickly as possible (to the extent such chargeback does not cause or increase deficit balances in the Partners' Capital Accounts which are not required to be restored to the Partnership).

Notwithstanding any provisions of this Agreement to the contrary, if a Partner unexpectedly receives an adjustment, allocation, or distribution described in Section 5.03(a)(1), Section 5.03(a)(2) or Section 5.03(a)(3), or any other distribution, which causes or increases a deficit balance in the Partner's Capital Account which is not required to be restored to the Partnership, the Partner shall be allocated items of income and gain (consisting of a pro rata portion of each item of Partnership income, including gross income, and gain for the year) in an amount and manner sufficient to eliminate the deficit balance as quickly as possible.

- (b) **Partnership Minimum Gain.** The amount of a Partner's share of minimum gain shall be added to the limited dollar amount, if any, of the deficit balance in such Partner's Capital Account that such Partner is obligated to restore to the Partnership.
- (c) **Minimum Gain Chargeback.** Except as otherwise provided in Treasury Regulation Section 1.704-2(f), notwithstanding any other provision of this Agreement, if there is a net decrease in Partnership minimum gain for a Partnership taxable year, the Partners shall be allocated items of Partnership income and gain in an amount equal to the portion that Partner's share of the net decrease in Partnership minimum gain that is allocable to the disposition of Partnership assets subject to one or more nonrecourse liabilities of the Partnership; and to the extent there is a

net decrease during a Partnership taxable year in the minimum gain attributable to a Partner nonrecourse debt, then any Partner with a share of the minimum gain attributable to the debt at the beginning of such year shall be allocated items of Partnership income and gain in accordance with Treasury Regulation Section 1.704-2(i). This Section 5.03 is intended to comply with the minimum gain chargeback requirement in the Treasury Regulations and shall be interpreted consistently therewith.

5.04. Allocation of Income, Deductions and Credits.

(a) General.

- (1) Deductions Are Allocated to Party Charged with Expenditure.** To the extent permitted by law and except as otherwise provided in this Agreement, all deductions and credits shall be allocated to the Partner that has been charged with the expenditure giving rise to the deductions and credits; and to the extent permitted by law, such Partner shall be entitled to the deductions and credits in computing taxable income or tax liabilities to the exclusion of any other Partner. Any Partnership deductions that would be nonrecourse deductions if they were not attributable to a loan made or guaranteed by the Managing General Partner or its Affiliates shall be allocated to the Managing General Partner to the extent required by law.
 - (2) Income and Gain Allocated in Accordance With Revenues.** Except as otherwise provided in this Agreement, all items of income and gain, including gain on disposition of assets, shall be allocated in accordance with the related revenue allocations set forth in Section 5.01 and Section 5.03.
- (b) Tax Basis of Each Property.** Subject to Section 704(c) of the Code, the tax basis of each oil and gas property for computation of cost depletion and gain or loss on disposition shall be allocated and reallocated when necessary based on the capital interest in the Partnership as to the property and the capital interest in the Partnership for this purpose as to each property shall be considered to be owned by the parties to this Agreement in the ratio in which the expenditure giving rise to the tax basis of the property has been charged as of the end of the year.
- (c) Gain or Loss on Oil and Natural Gas Properties.** Each party shall separately compute its gain or loss on the disposition of each oil and natural gas property in accordance with the provisions of Section 613A(c)(7)(D) of the Code, and the calculation of the gain or loss shall consider the party's adjusted basis in his property interest computed as provided in Section 5.04(b) and the party's allocable share of the amount realized from the disposition of the property.
- (d) Gain on Depreciable Property.** Gain from each sale or other disposition of depreciable property shall be allocated to each party whose share of the proceeds from the sale or other disposition exceeds its contribution to the adjusted basis of the property in the ratio that the excess bears to the sum of the excesses of all parties having an excess.

- (e) **Loss on Depreciable Property.** Loss from each sale, abandonment or other disposition of depreciable property shall be allocated to each party whose contribution to the adjusted basis of the property exceeds its share of the proceeds from the sale, abandonment or other disposition in the proportion that the excess bears to the sum of the excesses of all parties having an excess.
- (f) **Allocation If Recapture Treated As Ordinary Income.** Any recapture treated as an increase in ordinary income by reason of Sections 1245, 1250, or 1254 of the Code shall be allocated to the parties in the amounts in which the recaptured items were previously allocated to them; *provided that*, to the extent recapture allocated to any party is in excess of the party's gain from the disposition of the property, the excess shall be allocated to the other parties but only to the extent of the other parties' gain from the disposition of the property.
- (g) **Tax Credits.** If a Partnership expenditure (whether or not deductible) that gives rise to a tax credit in a Partnership taxable year also gives rise to valid allocations of Partnership loss or deduction (or other downward Capital Account adjustments) for the year, then the Partners' interests in such credit (or the cost giving rise thereto) shall be in the same proportion of the Partners' respective distributive shares of the loss or deduction (and adjustments). Identical principles shall apply in determining the Partners' interests in the Partnership with respect to tax credits that arise from the receipts of the Partnership (whether or not taxable).
- (h) **Partners' Allocable Shares.** Except as otherwise provided in this Agreement, each Partner's allocable share of Partnership income, gain, loss, deductions and credits shall be determined by the use of any method prescribed or permitted by the Secretary of the Treasury by regulations or other guidelines and selected by the Managing General Partner which takes into account the varying interests of the Partners in the Partnership during the taxable year. In the absence of these regulations or guidelines, except as otherwise provided in this Agreement, the allocable share shall be based on actual income, gain, loss, deductions and credits economically accrued each day during the taxable year in proportion to each Partner's varying interest in the Partnership on each day during the taxable year.

5.05. Elections.

- (a) **Election to Deduct Intangible Costs.** The Partnership's federal income tax return shall be made in accordance with an election under the option granted by the Code to deduct Intangible Drilling Costs.
- (b) **No Election Out of Subchapter K.** The Partnership shall be classified as a partnership for U.S. federal, state, and local income tax purposes, and not as an association or a corporation. No election shall be made by the Partnership, any Partner or the Operator to treat the Partnership as a corporation or any other entity taxable as a corporation for federal, state, or local tax purposes or for the Partnership to be excluded from the application of the partnership provisions of Subchapter K of the Code.

- (c) **Section 754 Election.** In the event of the transfer of a Unit in the Partnership, or on the death of an individual party to this Agreement, or in the event of the distribution of property to any party to this Agreement, the Managing General Partner may choose for the Partnership to file an election in accordance with the applicable Treasury Regulations to cause the basis of the Partnership's assets to be adjusted for federal income tax purposes as provided by Sections 734 and 743 of the Code.

5.06. **Distributions.**

- (a) **Quarterly Review of Accounts.** The Managing General Partner shall review the accounts of the Partnership at least quarterly to determine whether cash distributions are appropriate and the amount to be distributed, if any.
- (b) **Distributions.** The Partnership shall distribute funds in accordance with the Partnership's Cash Distribution Policy to the Managing General Partner (if the Managing General Partner is to receive a share of Partnership revenues pursuant to Section 4.04(a)(11) and the Partners which funds the Managing General Partner deems unnecessary to retain by the Partnership.
- (c) **No Borrowings.** In no event shall funds be advanced or borrowed for purposes of distributions, nor shall the net Subscription Proceeds from Partners be used for such purpose.
- (d) **Distributions to the Managing General Partner.** Cash distributions from the Partnership to the Managing General Partner shall only be made in conjunction with distributions to Partners and only out of funds properly allocated to the Managing General Partner's account. Notwithstanding the foregoing sentence, the Managing General Partner may elect not to currently receive all or any portion of amounts that have been allocated to it or its Affiliates pursuant to Section 5.01; any such deferred amount shall be, in the Managing General Partner's sole discretion, either retained by the Partnership on the Managing General Partner's or its Affiliates' behalf or distributed to the Partners. To the extent that the Managing General Partner elects not to receive any such distributions, subsequent distributions shall be made to the Managing General Partner, in priority to the Partners, until it has received on a cumulative basis the amount of distributions with respect to the Partners that it would have received without such election; *provided that*, no interest shall accrue on or be paid to the Managing General Partner with respect to such deferred amounts.
- (e) **Reserve.** At any time after three years from the date each Partnership Well is placed into production, the Managing General Partner shall have the right to deduct each month from the Partnership's proceeds of the sale of the production from the Partnership Well any amount it deems necessary in its sole discretion for the purpose of establishing a fund to cover the estimated Costs of plugging and abandoning the Partnership Well.
- (f) **Distribution of Uncommitted Subscription Proceeds.** Any Subscription Proceeds not expended or committed for expenditure, as evidenced by a written

agreement, by the Partnership within 24 months of the Offering Termination Date, except necessary operating capital, shall be distributed pro rata to the Partners in the ratio that the Subscription price designated on each Partner's Subscription Agreement bears to the total Subscription prices designated on all of the Partners' Subscription Agreements, as a return of capital.

For purposes of this clause, "committed for expenditure" shall mean contracted for, actually earmarked for or allocated by the Managing General Partner to the Partnership's operations, including acquisitions and drilling, and "necessary operating capital" shall mean those funds which, in the opinion of the Managing General Partner, should remain on hand to assure continuing operation of the Partnership.

- (g) **Interest and Return of Capital.** It is agreed among the parties to this Agreement that no party shall under any circumstances be entitled to any interest on amounts retained by the Partnership. Each Partner shall look only to its share of distributions, if any, from the Partnership for a return of its Capital Contribution.
- (h) **Withholding.** Notwithstanding any other provision of this Agreement, the Partnership shall comply with any withholding requirements under any applicable law and shall remit amounts withheld to, and file required forms with, applicable taxing authorities. To the extent that the Partnership is required to withhold and pay over any amounts to any taxing authority with respect to distributions or allocations to any Partner, the amount withheld shall be treated as a distribution of cash to such Partner in the amount of such withholding. The Managing General Partner shall use commercially reasonable efforts to notify the Partner and permit the Partner, if permitted by applicable law, to contest the applicability of the underlying tax prior to making such withholding. If an amount required to be withheld was not withheld from an actual distribution, the Partnership may reduce subsequent distributions by the amount of such required withholding and any penalties or interest thereon. Each Partner agrees to furnish to the Partnership such forms or other documentation as is reasonably necessary to assist the Partnership in determining the extent of, and in fulfilling, its withholding obligations.
- (i) **Cash Distribution Policy.** All distributions of cash to the Partners shall be made in compliance with the Partnership's cash distribution policy (the "**Cash Distribution Policy**") which establishes a target distribution for Limited Partners, which also may be the maximum distribution they will receive.
 - (1) **Distribution Timing.** Distributions, if any, shall be made quarterly from available cash. Distributions will only be made from earnings from assets acquired by the Partnership; net Subscription Proceeds from Partners or proceeds from any borrowing, will not be used to make distributions. Each Limited Partner will be eligible to receive distributions on a pro rata basis made with respect to the quarter in which such Limited Partner is admitted to the Partnership, determined by dividing the number of days in such quarter in which such Limited Partner was admitted to the Partnership or the LLC, as applicable, by the total number of days in such quarter, and

multiplying that percentage against the full quarterly distribution that such Limited Partner would otherwise receive were they eligible for a full distribution .

- (2) **Target Distributions.** In each case, a Limited Partner's annualized distribution will be an amount up to, but not to exceed, twelve percent (12%), annualized, of the amount of such Limited Partner's net Subscription Proceeds ("**Target Distribution**"); *provided*, the Managing General Partner has the right to change the Target Distribution percentage or distribute a lesser amount, based upon actual Partnership performance. Partnership earnings in excess of the Target Distributions and reserves which the Managing General Partner determines to be necessary or appropriate, if any, may be invested in additional acquisitions of, or investments in, energy-related assets. The reserves which the Managing General Partner may consider in determining the amount of cash available for distributions is not restricted by magnitude but is limited to the following purposes: operating, administrative, and other costs the Partnership will incur
- (3) **Additional Distributions.** The Cash Distribution Policy does not prohibit special or additional distributions by the Partnership and accordingly the Partnership may, in the sole discretion of the Managing General Partner, make special or additional distributions; *provided that*, the Managing General Partner first determines, in good faith, that the Partnership has sufficient funds available for such distribution.
- (4) **Target Distributions Are Not Cumulative.** If distributions are not paid or are less than the Target Distribution, in any quarter, Partners will not be entitled to receive the balance of the targeted distribution in the future.
- (5) **Distributions to the Managing General Partner.** Distributions to the Managing General Partner in any quarter will be calculated based upon the Managing General Partner's then applicable share of net Partnership revenues, as provided in Section 4.04(a)(11) and the actual amount being distributed to the Partners for such quarter
- (6) **LLC Distributions.** Distributions to the LLC, as a Limited Partner, will be in a manner that will allow the LLC to make distributions to its individual LLC Members in conformance with the Cash Distribution Policy. Distributions by the LLC shall be made promptly upon receipt of distributions from the Partnership.

ARTICLE VI TRANSFER OF INTERESTS

6.01. Transferability.

(a) General.

- (1) **Consent Required.** In addition to other restrictions on transferability provided in this Agreement and under applicable law, Units in the Partnership (and any rights to income or other attributes of the Units) shall be nontransferable except with the written consent of the Managing General Partner, such consent to be granted or withheld in the Managing General Partner's absolute discretion.
- (2) **Rights of Assignee.** Unless an assignee becomes a Substitute Partner in accordance with the provisions set forth below, such assignee shall not be entitled to any of the rights granted to a Partner under this Agreement, other than the right to receive all or part of the share of the profits, losses, income, gain, credits, and cash distributions or returns of capital to which the assignor would otherwise be entitled.

6.02. **Special Restrictions on Transfers.**

- (a) **General.** Transfers are subject to the following general conditions:
 - (1) only whole Units may be assigned unless the Partner owns less than a whole Unit, in which case its entire fractional interest must be assigned;
 - (2) the costs and expenses associated with the assignment must be paid by the assignor Partner or the assignee;
 - (3) the assignment must be in a form satisfactory to the Managing General Partner; and
 - (4) the terms of the assignment must not contravene those of this Agreement.

Transfers of Units are subject to the following additional restrictions set forth in Section 6.02(b) and Section 6.02(c).

- (b) **Securities Laws Restriction.** Subject to transfers permitted by Section 6.05 and transfers by operation of law, no Units shall be sold, assigned, pledged, hypothecated, or transferred unless:
 - (1) the Managing General Partner shall be satisfied that such transfer will not result in a violation of the Securities Act of 1933 or the securities laws of any applicable jurisdiction;
 - (2) such transfer would not cause the Partnership, any of its Affiliates or any Participant to be in violation of any applicable law, governmental regulation, contract, or other obligation legally binding upon any of them or otherwise suffer any material adverse consequence or the imposition of burdensome regulatory or other legal requirements; and
 - (3) in the Managing General Partner's discretion, an opinion of counsel acceptable to the Managing General Partner that the registration and

qualification of the Units are not required is delivered by the transferring parties.

Transfers are also subject to any conditions contained in the Subscription Agreement.

(c) **Tax Law Restrictions.** Subject to transfers permitted by Section 6.05 and transfers by operation of law, no sale, exchange, transfer, or assignment of a Unit shall be made which would result in the Partnership being treated as a “publicly-traded” partnership for purposes of Section 7704 of the Code.

(d) **Substitute Partner.**

(1) **Procedure to Become Substitute Partner.** An assignee of a Partner’s Units shall become a substituted Partner (the “**Substitute Partner**”) entitled to all the rights of a Partner if, and only if:

- (i) the assignor gives the assignee the right;
- (ii) the Managing General Partner consents to the substitution, which consent shall be in the Managing General Partner’s absolute discretion;
- (iii) in the aggregate, the assignee or the assignor pays to the Partnership all costs and expenses incurred in connection with the substitution; and
- (iv) the assignee and assignor execute and deliver the instruments (in form and substance satisfactory to the Managing General Partner) necessary or desirable to effect the substitution and to confirm the agreement of the assignee to be bound by all of the terms of this Agreement.

(2) **Rights of Substitute Partner.** A Substitute Partner is entitled to all of the rights attributable to full ownership of the assigned Units including the right to vote.

(e) **Effect of Transfer.**

(1) **Amendment of Records.** The Partnership shall amend its records at least once each calendar quarter to affect the substitution of Substitute Partners.

Any transfer permitted under this Agreement when the assignee does not become a Substitute Partner shall be effective:

- (i) as of midnight of the last day of the calendar month in which it is made; or

- (ii) at the Managing General Partner's election, 7:00 A.M. of the following day.
- (2) **Transfer Does Not Relieve Transferor of Certain Costs.** No transfer (including a transfer of less than all of a Partner's Units or the transfer of Units to more than one party) shall relieve the transferor of its responsibility for its proportionate part of any expenses, obligations and liabilities under this Agreement related to the Units so transferred, whether arising before or after the transfer.
- (3) **Transfer Does Not Require An Accounting.** No transfer of a Unit shall require an accounting by the Managing General Partner. Also, no transfer shall grant rights under this Agreement, including the exercise of any elections, as between the transferring parties and the remaining parties to this Agreement to more than one party unanimously designated by the transferees and, if he should have retained an interest under this Agreement, the transferor.
- (4) **Notice.** Until the Managing General Partner receives a proper designation acceptable to it, the Managing General Partner shall continue to account only to the Person to whom it was furnishing notices before the proposed transfer pursuant to Section 10.01. This party shall continue to exercise all rights applicable to the Units previously owned by the transferor.

6.03. Right of Managing General Partner to Hypothecate and/or Withdraw Its Interests.

- (a) The Managing General Partner shall have the authority, without the consent of the Partners and without affecting the allocation of Costs and revenues received or incurred under this Agreement, to hypothecate, pledge, or otherwise encumber, on any terms it sees fit, either:
 - (1) its Partnership interest; or
 - (2) an undivided interest in the assets of the Partnership equal to or less than its respective interest in the revenues of the Partnership, if any.
- (b) All repayments of such borrowings and costs, interest or other charges related to the borrowings shall be paid separately by the Managing General Partner. In no event shall the repayments, costs, interest, or other charges related to the borrowings be charged to the account of the Partners.
- (c) In addition, subject to a required participation of not less than one percent (1.0%) of the Partnership's Subscription Proceeds, the Managing General Partner may withdraw a property interest held by the Partnership in the form of a Working Interest in the Partnership Wells or other assets equal to or less than its respective interest in the revenues of the Partnership without the consent of the Partners. The Managing General Partner shall then have the right to sell or otherwise dispose of its interest. Subject to Section 4.04(a)(18), the Managing General Partner shall also

have the right to withdraw as Managing General Partner and sell or otherwise dispose of its entire interest with the consent of a Majority in Interest of Participants.

6.04. **Distribution Re-Investment Program.**

- (a) **General.** A Partner may elect, in writing, to have the Managing General Partner apply the distributions such Partner would receive pursuant to Section 5.06(b) and Section 5.06(h) to the purchase of additional Units or fractions thereof. Such purchases shall be made quarterly on the same schedule as distributions from the Partnership. The Managing General Partner shall keep a separate record for each Partner who elects to take part in this Distribution Re-Investment Program, shall make purchases of Units or fractions thereof for each applicable Partner in five-hundred-dollar (\$500.00) increments, and shall retain any unapplied funds of such Partner for use in the following quarter's purchases. Unit purchases through the DRIP will not require payment of the Dealer-Manager Fee, Sales Commissions, Due Diligence Fee, Marketing Expense Fee, or the Organization Charge, and accordingly will be purchased at ninety-one and seven-tenths percent (91.7%) of the investment payment amount. Partners may elect to participate in the DRIP at the time they invest or effective as of the beginning of any upcoming calendar year and those participating in the DRIP may elect to terminate their participation effective at the end of any calendar year.
- (b) **Limitations.** In the discretion of the Managing General Partner, Units may continue to be purchased through the DRIP after the Offering Termination Date.
- (c) **Termination.** A Partner who elects to take part in the DRIP may terminate such election as indicated in Section 6.04(a) on written notice to the Managing General Partner. Upon such termination, any funds being held by the Managing General Partner for the purchase of Units by the terminating Partner shall be delivered to such Partner. The Managing General Partner may terminate the DRIP at any time by notice to the Partners if it determines, in its sole discretion, that administration of the DRIP is uneconomical.
- (d) **DRIP Election.** When making an election to participate in the DRIP, a Partner must elect to receive any distributions in excess of either zero percent (0%), three percent (3%), six percent (6%), or nine percent (9%), annualized, in the form of DRIP Units.

6.05. **Presentment.**

- (a) **General.** Partners shall have the right to present their Units to the Managing General Partner for repurchase subject to the conditions and limitations set forth in this Section 6.05. A Partner, however, is not obligated to present its Units for repurchase.

The Managing General Partner shall not be obligated to purchase more than ten percent (10%) of the Units in any calendar year and the Managing General Partner may not waive this ten percent (10%) limit. The Managing General Partner also shall not purchase less than one Unit unless the lesser amount represents the

Partner's entire interest in the Partnership or an LLC Member's entire interest in the LLC, however, the Managing General Partner may waive this limitation in its sole discretion.

A Partner may present its Units in writing to the Managing General Partner between January 1 and March 31 of every year beginning 24 months after seventy-five percent (75%) or more of all Partnership funds are invested, subject to the following conditions:

- (1) a Participant may only present its Units once per year;
- (2) in accordance with Treasury Regulations Section 1.7704-1(f), the repurchase may not be made until at least sixty (60) calendar days after the Partner notifies the Partnership in writing of the Partner's intention to exercise the repurchase right or more than four times during the Partnership's taxable year; and
- (3) the repurchase shall not be considered effective until the Partner:
 - (i) receives the information concerning its interest in the Partnership's net revenues;
 - (ii) agrees to the presentment price; and
 - (iii) has been paid in cash.

- (b) **Valuation of Partnership Reserves.** The amount attributable to Partnership reserves shall be determined based on the most recent third-party reserve report obtained pursuant to Section 4.03(c)(5) if such report was completed within the prior twelve (12) months or on the last reserve report of the Partnership prepared by the Managing General Partner if it is more recent; *provided, however*, that a Partner may elect, when presenting its Units to the Managing General Partner to have the valuation based on a new reserve report of the Partnership to be prepared by an Independent Expert at the sole cost of such Partner. In such event, the Independent Expert shall be selected by the Partner subject to the approval of the Managing General Partner, which shall not be unreasonably withheld.

Beginning in the January that is a minimum of twenty-four (24) months after at least seventy-five percent (75%) of all Partnership funds are invested, the Managing General Partner will, at its sole option, estimate or cause an Independent Expert to prepare an estimate of, the present worth of future net revenues attributable to the Partnership's interest in Proved Reserves. In making this estimate, the Managing General Partner will use: a ten percent (10%) discount rate; a constant oil price; and will base natural gas prices on existing natural gas prices at the time of the valuation.

The calculation of the repurchase price shall be as set forth in Section 6.05(c).

- (c) **Calculation of Presentment Price.** The presentment price shall be based on the Partner's share of the net assets and liabilities and of future net revenues of the

Partnership and allocated to each Partner in the ratio that the number of its Units bears to the total number of Units. The presentment price shall include the sum of the following Partnership items which are attributable to such Partner:

- (1) an amount based on seventy percent (70%) of the present worth of future net revenues from the Proved Reserves, determined as described in Section 6.05(b) and Section 4.03(c)(5);
- (2) cash on hand;
- (3) prepaid expenses and accounts receivable, less a reasonable amount for doubtful accounts; and
- (4) the estimated market value of all assets, not separately specified above, determined in accordance with standard industry valuation procedures.

There shall be deducted from the foregoing sum the following items which are attributable to such Partner:

- (1) an amount equal to all debts, obligations, and other liabilities, including accrued expenses; and
- (2) any distributions made to such Partner between the date of the request and the actual payment. However, if any cash distributed was derived from the sale, after the presentment request, of oil, natural gas, or other mineral production, or of a producing property owned by the Partnership, for purposes of determining the reduction of the presentment price, the distributions shall be discounted at the same rate used to take into account the risk factors employed to determine the present worth of the Partnership's Proved Reserves.

(d) **Further Adjustment May Be Allowed.** The presentment price may be further adjusted by the Managing General Partner for estimated changes therein from the date of the report to the date of payment of the presentment price to the Partners because of the following:

- (1) the production or sales of, or additions to, reserves and Lease and well equipment, sale or abandonment of Leases or wells, and similar matters occurring before the request for repurchase; and
- (2) any of the following occurring before payment of the presentment price to the selling Partners:
 - (i) changes in Partnership Well or asset performance;
 - (ii) increases or decreases in the market price of oil, natural gas, or other hydrocarbons, produced energy or minerals;

- (iii) increases or decreases in the market value of other assets owned by the Partnership;
- (iv) revision of regulations relating to the importing of hydrocarbons or other energy related assets;
- (v) changes in income, ad valorem, and other tax laws such as material variations in the provisions for depletion; and
- (vi) similar matters.

- (e) **Selection by Lot.** If less than all Units presented at any time are to be purchased, then the Partners whose Units are to be purchased will be selected by lot.

The Managing General Partner's obligation to purchase Units presented may be discharged for its benefit by a third party or an Affiliate. The Units of the selling Partner will be transferred to the party who pays for them. A selling Partner will be required to deliver an executed assignment of its Units, together with any other documents that the Managing General Partner may reasonably request.

The Managing General Partner may, in its sole discretion, but shall not be required to, have the Partnership acquire Units that are presented for purchase pursuant to this Section 6.05; *provided that*, the combined purchases by the Managing General Partner and the Partnership pursuant to this Section 6.05 shall not exceed ten percent (10%) of the Units in the Partnership in any calendar year.

- (f) **No Obligation of the Managing General Partner to Establish a Reserve.** The Managing General Partner shall have no obligation to establish any reserve to satisfy the presentment obligations under this Section.

- (g) **Suspension of Presentment Feature.** The Managing General Partner may suspend this presentment feature at any time if it:

- (1) determines, in its sole discretion, that it does not have sufficient cash flow after taking into account amounts that the Managing General Partner deems prudent or advisable to retain for operational purposes or as reserves; or
- (2) deems it not prudent to borrow funds for this purpose on terms available to the Managing General Partner, in its sole discretion.

In addition, the presentment feature may be conditioned, in the Managing General Partner's sole discretion, on the Managing General Partner's receipt of an opinion of counsel that the transfers will not cause the Partnership to be treated as a "publicly traded partnership" under the Code.

The Managing General Partner shall hold any repurchased Units acquired by it pursuant to this Section 6.05 for its own account and not for resale.

ARTICLE VII
DURATION, DISSOLUTION, AND WINDING UP

7.01. Duration.

- (a) **Twenty-Five Year Term.** The Partnership shall continue in existence for a term of twenty-five (25) years from the effective date of this Agreement unless sooner terminated as set forth below.
- (b) **Termination.** The Partnership shall terminate following the occurrence of:
 - (1) a Final Terminating Event; or
 - (2) any event which under the LP Act causes the dissolution of a limited partnership.
- (c) **Continuance of Partnership Except On Final Terminating Event.** Other than on the occurrence of a Final Terminating Event, the Partnership or any successor limited partnership shall not be wound up, but shall be continued by the parties and their respective successors as a successor limited partnership under all the terms of this Agreement. The successor limited partnership shall succeed to all of the assets of the Partnership. As used throughout this Agreement, the term “Partnership” shall include the successor limited partnerships and the parties to the successor limited partnerships.

7.02. Dissolution and Winding Up.

- (a) **Final Terminating Event.** On the occurrence of a Final Terminating Event, the affairs of the Partnership shall be wound up and there shall be distributed to each of the parties an amount equal to its positive Capital Account.
- (b) **Time of Liquidating Distribution.**
 - (1) To the extent practicable and in accordance with sound business practices in the judgment of the Managing General Partner, liquidating distributions shall be made by:
 - (i) the end of the taxable year in which liquidation occurs (determined without regard to Section 706(c)(2)(A) of the Code); or
 - (ii) if later, within 90 days after the date of the liquidation.
 - (2) Notwithstanding the foregoing, the following amounts need not be distributed within the foregoing time periods so long as the withheld amounts are distributed as soon as practical:
 - (i) amounts withheld for reserves reasonably required for liabilities of the Partnership; and
 - (ii) installment obligations owed to the Partnership.

- (c) **In-Kind Distributions.** Upon the dissolution and liquidation of the Partnership, the Managing General Partner may, in its sole discretion, make distributions of assets (1) in cash, (2) in kind or (3) partly in cash and partly in kind. Any asset distributed in kind shall first be valued by an Independent Expert; *provided*, Roll-Up Entity securities distributed in kind shall be valued in accordance with Section 4.03(e)(16).
- (d) **Managing General Partner Clawback Obligation.** If, during the life of the Partnership, the Managing General Partner makes a special distribution pursuant to Section 4.04(a)(11)(ii) in which the Managing General Partner elected to calculate its interest in a disposed of asset separately, upon the final liquidation of the Partnership, the Managing General Partner will calculate the difference between (1) the aggregate amount of distributions that the Managing General Partner received pursuant to this Agreement and (2) the aggregate amount of distributions that the Managing General Partner would have received had no special distributions been made pursuant to Section 4.04(a)(11)(ii) and all distributions were otherwise made in accordance with the terms of this Agreement, in each case, net of any tax liabilities of the Managing General Partner or its Affiliates at the Assumed Tax Rate (the “**Clawback Amount**”). To the extent the Clawback Amount is positive, the Managing General Partner shall pay such excess to the Partnership and the Partnership shall distribute the Clawback Amount to the Limited Partners net of any portion thereof used or reserved for Partnership expenses, without duplication of and taking into account, amounts previously returned by the Managing General Partner. The Managing General Partner shall return the Clawback Amount as soon as reasonably practicable after the final liquidation of the Partnership, but in no event later than forty-five (45) days after the earlier of (i) final distribution of the Partnership’s assets and (ii) determination of the Clawback Amount payable. Any amounts returned by the Managing General Partner to the Partnership pursuant to the provisions described in this Section 7.02(d), will be distributed to the applicable Limited Partners based on their actual shortfall amount pursuant to the provisions described in this Section 7.02(d).

ARTICLE VIII ERISA CONSIDERATIONS

- 8.01. **Status Under ERISA Plan Asset Rules.** The Managing General Partner shall use its reasonable best efforts to prevent the assets of the Partnership from being treated as the assets of any ERISA Partner, including, if the Managing General Partner so elects in its discretion, to limit any investment in the Partnership so that the investment by Benefit Plan Investors is not deemed to be “significant” under the Plan Asset Rules. The Managing General Partner will promptly notify each ERISA Partner of any such election to limit participation by Benefit Plan Investors pursuant to Section 8.03.
- 8.02. **Significant Participation and Plan Asset Procedures.** If the Managing General Partner exercises its discretion to limit the participation of Benefit Plan Investors in the Partnership pursuant to Section 8.01, or if the Managing General Partner determines in good faith that there is a reasonable likelihood that any or all of the assets of the Partnership would be deemed to be “plan assets” under the Plan Asset Rules:

- (a) no transaction affecting the Units shall be effective if the Managing General Partner determines such transaction would cause or would present a material risk of causing the interests of Benefit Plan Investors to be “significant” under the Plan Asset Rules; and
- (b) the Managing General Partner may take any action that it deems appropriate in connection with assuring compliance with such exception, including, without limitation:
 - (1) precluding, limiting, liquidating, or not otherwise giving effect to all or any portion of any purchase, acquisition, assignment, or transfer of any Unit, or withdrawal of any Limited Partner;
 - (2) effecting pro rata withdrawals by Limited Partners who have represented that they are Benefit Plan Investors and by (unless otherwise agreed by a Limited Partner) Controlling Persons to reduce aggregate holdings of such Benefit Plan Investors so that investment by Benefit Plan Investors should not be deemed to be “significant” as determined under the Plan Asset Rules; or
 - (3) offering to any Limited Partner who is not a Benefit Plan Investor or an ERISA Partner the opportunity to purchase, or purchase itself, at the fair market value thereof, all or any portion of the Unit of an ERISA Partner.

8.03. **Consequences of ERISA Plan Asset Status.** If the Managing General Partner determines (including taking into account any relevant information provided by an ERISA Partner) that participation by Benefit Plan Investors in the Partnership is “significant” for purposes of the Plan Asset Rules or that no other exception from treatment as “plan assets” under the Plan Asset Rules applies, then the Managing General Partner shall promptly notify the ERISA Partners of such determination. The Managing General Partner is hereby authorized and empowered to take such actions as it determines in its discretion are appropriate to mitigate, prevent or cure any adverse consequences of such determination, which may include, without limitation, as appropriate:

- (a) renegotiating the terms of any investment or otherwise modifying the manner in which the Partnership conducts its business;
- (b) permitting or requiring the transfer of all or a portion of the Units of any or all of the ERISA Partners; and
- (c) requiring each ERISA Partner that is a Benefit Plan Investor (on a pro rata basis unless otherwise consented to by an ERISA Partner) to do one or more of the following so as to comply with the significant participation exception under the Plan Asset Rules:
 - (1) transfer all Units at a price not less than the fair market value of such Units, with such fair market value being determined in good faith by the Managing General Partner; or

- (2) completely or partially withdraw from the Partnership and receive in consideration therefor an amount equal to the fair market value of such Unit being withdrawn, with such fair market value being determined in good faith by the Managing General Partner, and, in either case, with such amount being payable, in the discretion of the Managing General Partner, either in cash or in the form of a promissory note (which may be prepaid by the Partnership at any time).

Any distributions in kind made to a withdrawing ERISA Partner shall be made at the option of the Managing General Partner after consultation with the withdrawing ERISA Partner, and shall be made in proportion to the withdrawing ERISA Partner's Units; *provided that*, no distribution of property shall be made to the withdrawing ERISA Partner if the holding thereof would constitute or result in a violation of ERISA or other applicable law.

If, within 90 days after the Managing General Partner's notification pursuant to the first sentence of Section 8.03, the Managing General Partner has not delivered to each ERISA Partner an affirmative certificate to the effect that the assets of the Partnership should not then be deemed to constitute "plan assets," then from or after the expiration of such 90-day period each ERISA Partner may send notice to the Managing General Partner that it is completely withdrawing from the Partnership; *provided that*, such right of withdrawal shall terminate if an affirmative certificate, or other such evidence as applicable, has been delivered to the withdrawing ERISA Partner prior to the effective date of withdrawal. Each withdrawing ERISA Partner shall be entitled to receive in consideration for its Unit an amount determined pursuant to this Section 8.03.

Unless otherwise determined by the Managing General Partner, a complete or partial withdrawal of the ERISA Partners shall occur as of the date that is the earlier of: the last day of the fiscal year of the Partnership during which the decision to withdraw is made and the last day of the fiscal quarter during which such decision to withdraw is made or of any subsequent fiscal quarter if such day is recommended by counsel.

ARTICLE IX

CERTAIN REPRESENTATIONS AND WARRANTIES OF EACH LIMITED PARTNER

9.01. **ERISA.** Each Participant represents, warrants, and confirms that it is not a Benefit Plan Investor or a Controlling Person. If such Participant is a Benefit Plan Investor or a Controlling Person, it agrees to notify the Managing General Partner in writing regarding such status prior to its Subscription and it agrees that the Managing General Partner may limit such Subscription in order to comply with the requirements of Section 8.01.

9.02. **Sanctions.**

(a) Each Participant represents, warrants, and confirms that it (including, if any, its directors, officers, employees, owners, agents, investors, shareholders, and representatives) is not:

- (1) identified on any list maintained by, or public announcement of economic, financial, or trade related sanctions laws, regulations, embargoes, or restrictive measures designation made by, the United States of America

Government, any U.S. state, or any agency, entity, or instrumentality of the foregoing (including, without limitation, the Office of Foreign Assets Control of the Treasury (“**OFAC**”) or the U.S. Department of State) (“**Sanctions**”);

- (2) resident, operating, or located in, or organized under the laws of, any country or territory that is the target of comprehensive, country-wide or territory-wide Sanctions, which as of the date of this Agreement, comprise the Crimea, Donetsk, and Luhansk regions of Ukraine, Burma (Myanmar), Cuba, Iran, North Korea, Russia, Sudan, Syria, and Venezuela (each such jurisdiction, a “**Sanctioned Country**”);
 - (3) a government or instrumentality of a Sanctioned Country;
 - (4) owned or controlled (directly or indirectly), or acting on behalf of, any of the foregoing Persons; or
 - (5) otherwise a target of Sanctions (“**Target of Sanctions**” signifying a Person with whom a Person subject to the prohibitions of any Sanctions would be prohibited or restricted from engaging in any trade, business or other activities).
- (b) Each Participant represents, warrants, and confirms that there have been no actions, investigations, inquiries, or proceedings pending or threatened against it (including, if any, its directors, officers, employees, owners, agents, investors, shareholders, and representatives) alleging that it:
- (1) is a Target of Sanctions; or
 - (2) has violated, or is in breach of, any applicable (a) Sanctions, or (b) laws, rules, and regulations concerning or relating to (i) anti-money laundering, terrorist financing or financial recordkeeping or reporting (“**Anti-Money Laundering Laws**”), or (ii) anti-bribery, anti-corruption, or anti-kickback matters (including, without limitation, the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder) (“**Anti-Corruption Laws**”).
- (c) Each Participant represents, warrants, and confirms that none of the Subscription Proceeds that will be provided in connection with its Subscription shall be derived from any illicit or unlawful activity, or from any dealings that would cause the Partnership, the Managing General Partner, any of their Affiliates, or any Participant to violate Sanctions, Anti-Money Laundering Laws, or Anti-Corruption Laws.
- (d) Each Participant represents, warrants, and confirms that it (including, if any, its officers, directors, employees, investors, shareholders, owners, agents, and representatives) shall not give, provide, offer, or make available, directly or knowingly indirectly, any distribution from the Partnership or the LLC:
- (1) to any Target of Sanctions;

- (2) to any officer, employee, or ceremonial office holder of any government or instrumentality thereof; any political party or supra-national organization; any other public or private person or entity for the purpose of obtaining or retaining any business advantage; or
- (3) in any manner that would result in the Partnership, the Managing General Partner, any of their Affiliates, or any Participant violating applicable Sanctions, Anti-Money Laundering Laws, or Anti-Corruption Laws.

ARTICLE X MISCELLANEOUS PROVISIONS

10.01. Notices.

- (a) All notices, requests, and other communications to any party hereunder shall be in writing (including email or other electronic means) and shall be given (a) if to the Partnership or the Managing General Partner, at c/o U.S. Energy Development Corporation, 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164, (682) 305-2868, Attention: Legal Department, Email: contracts@usedc.com , and (b) if to a Participant, at the Participant's address or email address as set forth on the Subscription Agreement of such Participant. Each such notice, request, or other communication shall be effective (1) if given by mail, three Business Days after such communication is deposited in the mails with first-class postage prepaid, addressed as aforesaid, even if such notice is not received, (2) if given by email or other electronic means, when the appropriate confirmation of receipt is received or at the time the email enters the receiving party's information processing system; *provided that*, any receipt of notice given by email after 5:00 p.m. on a Business Day or on a day that is not a Business Day, shall be deemed given on the next Business Day, (3) if posted on a password-protected website maintained by the Managing General Partner or any of its Affiliates and for which a Participant has received notice of such posting and access instructions by electronic mail, when such notice is delivered pursuant to this Section 10.01(a), or (4) if given by any other means, when delivered at the address specified pursuant to this Section 10.01.

No transfer of Units under this Agreement shall increase the Managing General Partner's duty to give notice. If there is a transfer of Units under the Agreement to more than one party, then notice to any owner of any interest in the Units shall be notice to all owners of the Units.

- (b) **Change in Notice Details.** The notice details of any party to this Agreement may be changed by written notice as follows:
 - (1) to the Participants if there is a change of notice details by the Managing General Partner; or
 - (2) to the Managing General Partner if there is a change of notice details by a Participant.

- (c) **Effectiveness of Notice.** Any notice to a party other than the Managing General Partner, including a notice requiring concurrence or non-concurrence, shall be effective, and any failure to respond binding, irrespective of the following:
 - (1) whether or not the notice is actually received; or
 - (2) any disability or death on the part of the notice, even if the disability or death is known to the party giving the notice.
- (d) **Failure to Respond.** Except when this Agreement expressly requires affirmative approval of a Partner, any Partner who fails to respond in writing within the time specified to a request by the Managing General Partner for approval of or concurrence in a proposed action shall be conclusively deemed to have voted for, approved and consented to the action. The time period shall be not less than fifteen (15) Business Days from the date of mailing of the request, the date of electronic delivery of the request, or the date of the delivery of the request to a nationally recognized overnight delivery service.

10.02. **Time.** Time is of the essence for each part of this Agreement.

10.03. **Applicable Law.** The terms and provisions of this Agreement shall be construed under the laws of the State of Delaware.

10.04. **Agreement in Counterparts.** This Agreement may be executed in counterpart and shall be binding on all parties executing this or similar agreements from and after the date of execution by each party.

10.05. **Amendment.**

- (a) **Procedure for Amendment.** No changes in this Agreement shall be binding unless proposed in writing by:
 - (1) the Managing General Partner and adopted with the consent of a Majority in Interest of Partners; or
 - (2) twenty-five percent (25%) in Interest of Partners and approved by an affirmative vote of sixty-five percent (65%) in Interest of Partners.
- (b) **Circumstances Under Which the Managing General Partner Alone May Amend.** The Managing General Partner is authorized to amend this Agreement and its exhibits without the consent of Partners in any way deemed necessary or desirable by it to:
 - (1) add or substitute, in the case of an assigning party, additional Partners;
 - (2) enhance the tax benefits of the Partnership to the parties;
 - (3) satisfy any requirements, conditions, guidelines, options, or elections contained in any opinion, directive, order, ruling, or regulation of the SEC,

the IRS, or any other federal or state agency, or in any federal or state statute, compliance with which it deems to be in the best interest of the Partnership; or

- (4) cure any ambiguity or correct or supplement any provisions herein that may be inconsistent with any other provision hereof, or correct any printing, stenographic, or clerical errors or omissions.

Notwithstanding the foregoing, no amendment materially and adversely affecting the interests or rights of Participants shall be made without the consent of the Partners whose interests will be so affected.

10.06. Confidentiality.

- (a) Each Participant not affiliated with the Partnership agrees (1) to maintain in confidence all non-public and other confidential information regarding the Partnership (including its investments), the LLC, the Managing General Partner, Affiliates of the foregoing, their respective businesses and operations (including plans, prospectus, data, reports, drawings, documents, business secrets, performance or financial information or information of any other kind) and Participants (collectively, “**Confidential Information**”), (2) to use Confidential Information only for the purpose of monitoring such Participant’s investment in the Partnership or the LLC, (3) to cooperate in any action that the Managing General Partner may decide to prevent or minimize the disclosure of such Confidential Information, and (4) that the unauthorized disclosure or misappropriation of Confidential Information by such Participant is likely to cause irreparable damage to the Partnership, the LLC or the Managing General Partner such that monetary damages may not be an adequate remedy. The Partnership and the Managing General Partner shall be entitled to injunctive and other equitable relief, in addition to all other remedies available to them at law or at equity, and no proof of special damages shall be necessary for the enforcement of this Section 10.06.
- (b) The obligations of non-disclosure in Section 10.06(a) will not (1) restrict disclosure of Confidential Information to such Participant’s attorneys, accountants or other professional advisors who have a need for such information; *provided*, such Persons are informed of the confidential nature of the Confidential Information and are directed to maintain the confidentiality thereof, or are otherwise subject to confidentiality obligations consistent with those set forth in this Agreement, (2) restrict the disclosure of Confidential Information by such Participant to the extent such disclosure is required by law; *provided that*, such Participant promptly notifies the Managing General Partner of such disclosure obligation to enable the Managing General Partner to seek an appropriate protective order and to make known to such authority the proprietary nature of the Confidential Information; *provided further*, that such Participant shall only make such disclosure to the extent it is required to do so by law, (3) restrict disclosure of Confidential Information to a potential purchaser of such Participant’s Units, to the extent such disclosure is required by applicable law pertaining to the disclosure of material information to the counterparty in a securities transaction, and only if the recipient of such Confidential

Information is subject to an enforceable confidentiality obligation with respect to such Confidential Information at least as restrictive as that set forth in this Section 10.06, or (iii) restrict the disclosure of Confidential Information by such Participant to the extent permitted with the written consent of the Managing General Partner. The confidentiality obligations of such Participant will survive any termination of the membership of such Participant in the Partnership or the LLC.

- (c) Each Participant subject to the obligations set forth in Section 10.06(a) covenants and agrees that if such Participant or any of its disclosure recipients violates any of such Participant's covenants or agreements under this Section 10.06, the Partnership or the LLC will be entitled to an accounting and repayment of all profits, compensation, commissions, remunerations or benefits which such Participant, directly or indirectly, has realized and/or may realize as a result of, growing out of or in connection with any such violation. Such remedy will be in addition to, and not in limitation of, any injunctive relief or other rights or remedies to which the Partnership, the LLC or the Managing General Partner is or may be entitled at law or in equity or under this Agreement.
- (d) If any of the provisions of this Section 10.06 are held to be invalid or unenforceable, the remaining provisions will nevertheless continue to be valid and enforceable as though the invalid or unenforceable parts had not been included therein. If any provision of this Section 10.06 relating to time period and/or scope of restriction will be declared by a court of competent jurisdiction to exceed the maximum time period or scope such court deems reasonable and enforceable, said time period and/or scope of restriction will be deemed to become and thereafter be the maximum time period and/or scope which such court deems reasonable and enforceable.
- (e) In any action brought to enforce the terms of this Section 10.06, the prevailing party will be entitled to such attorneys' fees and costs as may be determined by the court to be reasonable.

10.07. Side Letters. The Partnership or the Managing General Partner may, without any further act, approval or vote of any Partner, enter into side letters ("**Side Letters**") with one or more Partners or LLC Members that have the effect of establishing rights under, or altering or supplementing, the terms of, this Agreement, the LLC Operating Agreement and/or the Subscription Agreement which relate to such Partner or LLC Member and any rights established or any terms of this Agreement, the LLC Operating Agreement and/or Subscription Agreement altered or supplemented in a Side Letter with a Partner or LLC Member shall govern solely with respect to such Partner or LLC Member notwithstanding any other provisions of this Agreement, the LLC Operating Agreement or such Subscription Agreement; *provided that*, no such amendment shall adversely affect the right of any other Partner or LLC Member hereunder.

10.08. Entire Agreement. This Agreement, the Subscription Agreement and Side Letters between the Managing General Partner or the Partnership and a Partner or LLC Member executed in connection with the Subscription by such Person for Units, contain the entire understanding among the parties hereto and supersede all prior written or oral agreements and understandings among them with respect to the subject matter hereto.

10.09. Additional Partners. Each Partner consents to the admission to the Partnership of additional Partners as the Managing General Partner, in its discretion, chooses to admit.

10.10. Legal Effect. This Agreement shall be binding on and inure to the benefit of the parties, their heirs, devisees, personal representatives, successors and assigns, and shall run with the interests subject to this Agreement. The terms “Partnership”, “Limited Partner”, “Participant”, “Partner”, “Managing General Partner”, “Operator”, “LLC”, “LLC Member”, or “Parties” shall equally apply to any successor limited partnership, and any heir, devisee, personal representative, successor or assign of a party.

10.11. Partnership Name. The name U.S. Energy Private Capital III LP, whether used alone or in combination with other words, and related goodwill is the sole and exclusive property of U.S. Energy. If U.S. Energy or any of its Affiliates cease to be the Managing General Partner, then the Partnership shall cease to conduct business under that name and adopt a new name that does not contain the term, “USEDCC”, “U.S. Energy”, “U.S. Energy Development Corporation” or any confusingly similar term, and shall cease all use of any of the foregoing terms.

10.12. Compliance with Anti-Money Laundering Requirements. Notwithstanding any other provision of this Agreement to the contrary, the Managing General Partner, in its own name and on behalf of the Partnership, is authorized without the consent of any Person, including any Partner, to take such action as it determines in its sole discretion to be necessary or advisable to comply with Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws, or to cure or mitigate any material adverse effect on the Partnership as a result of any Partner’s continued participation in the Partnership.

10.13. Further Assurances. The Partners agree to execute such instruments and documents as may be required by law or that the Managing General Partner reasonably deems necessary or appropriate to carry out the intent of this Agreement so long as they do not alter the rights and obligations of the Partners under this Agreement or create any liabilities or obligations on the part of the Partners (including any certificates containing representations and warranties not contemplated in this Agreement or the Subscription Agreement).

[Signature Page Follows]

IN WITNESS WHEREOF, the parties to this Agreement have caused this Agreement to be executed as of the date first above written.

MANAGING GENERAL PARTNER:

U.S. ENERGY DEVELOPMENT CORPORATION



Name: Brandon Standifird

Title: Chief Financial Officer

LIMITED PARTNERS:

By: U.S. Energy Development Corporation, *as the agent and attorney-in-fact for each Limited Partner*



Name: Brandon Standifird

Title: Chief Financial Officer

EXHIBIT A
OPERATING AGREEMENT

OPERATING AGREEMENT

THIS AGREEMENT (this “Agreement”) is made and entered into as of this 4th day of April, 2025 by and between U.S. ENERGY PRIVATE CAPITAL III LP, located at 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164 (the “Partnership”), and U.S. ENERGY DEVELOPMENT CORPORATION, a New York corporation with its principal office at 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164 (the “Operator” or “U.S. Energy”, and together with Partnership, the “Parties”, and each a “Party”). Capitalized terms used herein but not defined shall have the meanings ascribed to them in the Partnership’s Amended and Restated Agreement of Limited Partnership (as amended, modified or supplemented from time to time, the “Partnership Agreement”).

Introductory Statement

The Operator:

- has obtained in the name of the Partnership or has obtained by assignment or otherwise, certain oil and gas properties or interests in oil and gas properties covering the tracts of land described in the oil and gas leases identified in Schedule A and made a part hereof (the “Leases”);
- has obtained in the name of Partnership or has obtained by assignment or otherwise, other oil and gas related assets or alternative energy assets, or alternative energy related assets (the “Other Assets”);
- has caused or will cause the assignment of certain wellbores drilled on the Leases to the Partnership; and
- desires to enter into this Agreement with the Partnership with respect to operating the Internal Wells once completed.

NOW THEREFORE, for and in consideration of the mutual representations, warranties, covenants, and conditions contained in this Agreement, and intending to be legally bound the Operator and the Partnership agree as follows:

1.01 Operation and Management. All (a) Internal Wells which are drilled, completed, and equipped by the Operator and (b) Other Assets shall, in each case, be operated by the Operator or a qualified subcontractor selected by the Operator on as nearly a continuous basis as is possible in accordance with good oil and gas field practices in a prudent manner. The duties of the Operator shall include, but not be limited to those set forth below. All External Wells drilled, completed and equipped by an External Operator, in which the Operator or the Partnership hold a non-operated working interest, or substantially similar interest, shall not be governed by this Agreement, but will instead be governed by the applicable joint operating agreement, or laws and regulations, applicable to such External Wells.

“External Wells” means any well whereby the Operator or the Partnership, as applicable, hold a non-operated working interest in such well.

“Internal Wells” means any well that is not an External Well (and together with the External Wells, the “Wells”).

1.01(a) Operations and Personnel. The Operator shall operate, supervise, and manage the Internal Wells and Other Assets, and provide all personnel to perform the services.

1.01(b) Marketing the Oil, Gas and Other Products. The Operator or a third-party gas marketer, at the Operator’s election, shall assist with the arrangements for the gathering, transportation, marketing, and/or sale of all oil, gas, natural gas liquids, or other products produced by the Internal Wells and Other Assets:

- (i) at prices prevailing in the field from time to time that are available to a similarly situated seller; and
- (ii) on terms including escalation provisions that the Operator reasonably believes are commercially reasonable to the Partnership.

1.01(c) Payment of Royalties and Other Expenses. The Operator shall receive the gross proceeds from the oil and gas sales, as well as the sale of other products from the Wells and Other Assets, and shall deduct and pay from the gross proceeds:

- (i) all royalties (if not already deducted by the purchaser or the third-party gas marketer);
- (ii) all compensation due it under Section 2.01 of this Agreement; and
- (iii) all expenses charged by third parties incurred in operating the Internal Wells or Other Assets for which payment or reimbursement is authorized under this Agreement as reflected against appropriate invoices or other evidence of the expenses.

The Operator shall then make payment of the pro rata share of the balance to the Partnership, no less frequently than quarterly.

1.01(d) Supervision After Production Begins. After acquisition of Wells or Other Assets by the Partnership or after connection of the gas Internal Wells to gas gathering and/or transmission lines and/or completion as oil producers if appropriate, the Operator shall arrange for any additional labor, equipment, and materials which may be required for the continued and successful operation of the Internal Wells or Other Assets. This includes lease and transportation costs, solvents, additional rig time, repairs or replacement of equipment, regulators, gauges, charts, and other commercially reasonable equipment, materials, and services.

1.01(e) Plugging and Abandonment. The Operator shall plug and abandon or arrange for plugging and abandoning any Internal Well as directed by the Partnership when any Internal Well becomes uneconomical to operate. The plugging and abandoning shall be conducted in accordance with applicable laws and regulations of the state in which the applicable Internal Well is located. The salvage from the plugging and abandoning shall be promptly turned over to the owners of the Internal Wells, as their interest might appear and/or as provided for in applicable agreements.

1.01(f) **Governmental Permits.** The Operator shall obtain all governmental approvals and permits for operating the Internal Wells or Other Assets, or plugging and abandoning the Internal Wells, as the case may be.

1.01(g) **Monthly Statements.** Each month, the Operator shall provide to the Partnership, a statement showing receipts and disbursements. This includes amounts due for royalties, well maintenance fees, taxes, and other expenses with invoices or other customary evidence available on request.

1.01(h) **Annual Reports.** The Operator shall provide an annual report to the Partnership concerning the preceding period's operations including production records and all information necessary for Partnership to properly file its tax returns including Schedule K-1's and reports on a timely basis.

The Partnership and its authorized representatives shall have on 24-hour prior written notice, access during normal business hours and under the Operator's supervision to all of the Operator's records relevant to the operations under this Agreement subject to any confidentiality restrictions or agreements and/or the execution of a confidentiality agreement by the Partnership.

2.01 **Compensation, Reimbursements, and Management Fee.**

2.01(a) **Amount.** The Operator shall receive from the Partnership in proportion to the share of the working interest owned by the Partnership in the Internal Wells or Other Assets, the following:

(i) For Internal Wells:

- (a) payment or reimbursement at actual cost for all direct expenses incurred on behalf of Partnership, relating to the Internal Wells as contemplated by this Agreement, including non-routine maintenance cost, water hauling, rebuilding of roads, any third-party costs for tax preparation, and other third-party charges for services (non-routine services provided by the Operator shall be charged at hourly rates comparable to rates being charged by others in the same geographic area to similarly situated sellers which are fair and reasonable to the Partnership, as reasonably determined by the Operator); and
- (b) an operating fee at a rate comparable to then prevailing market terms to similarly situated sellers for such geographic area which is fair and reasonable to the Partnership, as reasonably determined by the Operator. Such fee covers all normal and regularly recurring operating expenses for the production, delivery and sale of oil and gas when performed by the Operator, such as: well tending, routine maintenance and adjustment, reading meters, recording production, pumping, and maintaining appropriate books and records, preparing reports to Partnership and to government agencies, and collecting and disbursing revenues.

(ii) For Other Assets:

- (a) The Operator shall be reimbursed, at cost, for any third-party expenses incurred with respect to the operation, ownership, or sale of the Other Assets, at its standard hourly rate for the efforts of its employees involved in operation, ownership, or sale of the Other Assets.

2.01(b) Acquisitions. The Operator shall be reimbursed, at cost, for any third-party expenses incurred with respect to acquisitions or potential acquisitions of assets or Wells, at its standard hourly rate for the efforts of its employees involved in such acquisitions or potential acquisitions for the Partnership.

2.01(c) New Internal Wells. If the Partnership drills a new Internal Well or Internal Wells on locations it has acquired that are in a geographic area where the Operator is operating other wells, the Operator shall be the operator of such Internal Wells, including during the drilling, completion, and connection of such Internal Wells to production facilities, and during such activities shall be compensated for services it performs, according to an hourly rate schedule, and for equipment supplied by third parties.

2.01(d) COPAS. The Operator shall be reimbursed and/or compensated for all expenses incurred in the operation of the Internal Wells and for all well operating expenses, all as provided in the Council of Petroleum Accountants Societies COPAS 2005 Accounting Procedure, a copy of which is attached hereto as Schedule B and made a part hereof.

3.01 Employees. The number of employees and their selection, and the hours of labor and their compensation shall be determined by the Operator. All such employees shall be employees of the Operator or its subcontractors, as appropriate, and not the Partnership.

4.01 Insurance. With respect to any Internal Well, U.S. Energy shall carry and maintain for the benefit of the Operator and the Partnership as their interest may appear, insurance with financially responsible insurance carriers as follows:

- (i) workmen's compensation and employer's liability insurance as may be required by the laws of the State of Texas and any other state in which the Operator is acting as the operator for the Partnership;
- (ii) comprehensive general public liability and property damage insurance with \$1,000,000 combined single limit coverage and \$2,000,000 aggregate coverage;
- (iii) comprehensive automobile public liability and property damage insurance with combined single limits of \$1,000,000;
- (iv) pollution legal liability coverage of \$1,000,000 per occurrence and \$4,000,000 of excess liability which protects and defends the insured against property damage or bodily injury claims from third parties, other than a co-owner of the interest in, the well, alleging seepage, pollution or contamination damage resulting from an accident;
- (v) excess liability and umbrella liability coverage in the combined amount of \$25,000,000 per occurrence or accident and in the aggregate;

- (vi) well control insurance with limits of \$30,000,000 for drilling, \$5,000,000 for wells 5000' or shallower in depth and \$10,000,000 for wells more than 5000' in depth; and
- (vii) crime coverage, with limits of up to \$3,000,000 and cyber liability coverage with limits of \$3,000,000 in the aggregate.

4.01(a) **Certificates and Cancellation Notice.** Certificates or memoranda of the insurance shall be delivered to the Partnership on or before execution of this Agreement. The Partnership shall receive sixty (60) days' prior written notice of any cancellation pursuant to an endorsement required under Section 4.01(c) below.

4.01(b) **Partnership as Additional Insured.** In order to properly disclose the Partnership's relationship to the Operator's insurance carriers, the Partnership and the Operator agree that the Partnership must be named as "Additional Insured" on the Operator's comprehensive general liability and excess liability (umbrella) policies.

4.01(c) **Pro Rata Payment.** The Partnership shall pay its pro rata portion of the cost of such insurance as determined by the Operator.

5.01 Liens.

5.01(a) **Discharge of Liens.** The Operator shall not, and shall not permit any person to, create any lien or charge to be fixed, filed, or otherwise assessed against any leasehold interest of the Partnership, any drilling or operating equipment located on the leaseholds under any Lease, or the Partnership's interest in any Other Assets. If any lien or charge is created, asserted, or filed against the Operator, the Partnership, any leasehold property belonging to the Partnership or the drilling or operating equipment located on the leaseholds under any Lease or the Other Assets, then the Operator shall promptly cause the lien or charge to be discharged, or bonded, within thirty (30) days of the filing or perfection of the lien or charge.

5.01(b) **Partnership's Rights.** If the Operator fails to cause any lien or charge to be discharged or bonded, then the Partnership may discharge such lien or charge, and the Operator shall promptly reimburse the Partnership for any loss or expense associated with any action taken by the Partnership to discharge or terminate the lien or charge including legal fees incurred in connection with the lien or charge shall be deducted from the next payment to be made to the Operator pursuant to Section 1.01(c)(ii) and paid to the Partnership pursuant to the last paragraph of Section 1.01(c). The Operator shall refund to the Partnership all monies which the Partnership paid in discharging the lien or charge which are in excess of any payment due or to become due to the Operator under this Agreement.

5.01(c) **Operator Lien.** The Operator does not waive any statutory lien, if any, with respect to any amounts due to it under this Agreement.

6.01 Access to Wells.

6.01(a) **Access.** The Partnership, its general and limited partners, or any designated representative or agent shall have:

- (i) access to the Internal Wells at all reasonable times, subject to their compliance with all applicable safety laws, rules, and regulations and at its or their sole risk, to inspect or observe operations; and
- (ii) access at reasonable times and under the supervision of the Operator to information pertaining to the operation of the Internal Wells, subject to the right of the Managing General Partner to keep certain information confidential and/or execution by the Partnership of a written confidentiality agreement.

7.01 Equipment, Materials, and Services.

7.01(a) Subcontracts. The Operator may contract with oil and gas field service and/or contracting firms whether or not affiliated with the Operator to perform certain services related to the Leases and Internal Wells on terms the Operator believes are fair and reasonable to the Partnership.

7.01(b) Quality of Equipment. Equipment and materials to be obtained by the Operator shall be new or used, and in all events shall be serviceable for the purposes intended.

7.01(c) Competitive Rates. If any person or firm affiliated with the Operator supplies equipment, materials, or services to or on behalf of the Operator under this Agreement, then the equipment, materials, or services shall be supplied on terms the Operator believes are fair and reasonable to the Partnership.

8.01 Separate Entities.

8.01(a) Relationship Between Parties. None of the rights, duties, or obligations of the Parties to this Agreement or the terms of this Agreement shall be construed as creating:

- (i) a joint venture;
- (ii) a partnership;
- (iii) an employee-employer relationship; or
- (iv) any other legal entity whereby one party is responsible individually or otherwise for the acts, whether by commission or omission, debts, liabilities, or charges of any other party incurred in connection with the operating, plugging, or abandoning of any Internal Well or the Leases covered by this Agreement.

8.01(b) Independent Contractor Status. The Operator is an independent contractor in its performance under this Agreement.

9.01 Modifications, Counterparts.

9.01(a) Modification. No change, modification, or alteration of this Agreement shall be valid unless it is in writing, signed by the Parties to this Agreement, and no course of dealing between the Parties shall be construed to alter the terms of this Agreement.

9.01(b) **Counterparts.** If this Agreement is executed in counterparts, any executed copy of this Agreement shall be deemed an original for any and all purposes.

10.01 **Compliance with Law.**

10.01(a) **Agreement Subject to All Laws.** This Agreement shall be subject to all valid and applicable local, state, and federal laws, rules, regulations, and orders, and the operations conducted under this Agreement shall be performed in accordance with these laws, rules, regulations, and orders.

10.01(b) **Agreement Deemed Modified.** If this Agreement, any provision of this Agreement, or operations contemplated by this Agreement are found to be inconsistent with or contrary to any laws, rules, regulations, or orders, the latter shall be deemed to control and this Agreement shall be regarded as modified to conform with these laws, rules, regulations, and orders. The Agreement as so modified shall continue in full force and effect.

11.01 **Indemnification.** Subject to and except as otherwise provided in Section 4.05 of the Partnership Agreement, the Operator shall indemnify, defend, and hold harmless the Partnership and its general and limited partners, legal representatives, successors, and assigns from any and all claims, damages, causes of action, suits, whether in law or equity, loss, liability, cost, or expense including legal fees arising out of, relating to, or in connection with any action or failure to act by the Operator, its employees, agents, independent contractors, or subcontractors with respect to the obligations of the Operator under this Agreement. The indemnification provisions set forth in the Partnership Agreement are for the benefit of the Operator, as set forth therein.

12.01 **Successors.** The terms, covenants, and conditions of this Agreement shall be binding on and shall inure to the benefit of the Parties to this Agreement and their respective legal representatives, successors, and assigns.

13.01 **Assignment by the Operator.** The Operator shall not be entitled to assign its rights under this Agreement; provided that the Operator may, without the consent of the Partnership, subcontract the performance of services under this Agreement; provided further, the Operator shall not be relieved from any liability or obligation under this Agreement by virtue of such subcontract. If the Operator shall sell, transfer, or assign its interests under this Agreement, the purchaser or recipient of the interests shall assume the obligations and have the benefits of this Agreement.

14.01 **Termination.**

14.01(a) **Removal of the Operator as Operator.** The Operator may be removed, at the sole discretion of the Partnership, and this Agreement shall be terminated on the occurrence of any of the following events:

- (i) the filing by or against (and not cured within thirty (30) days) or the consent of the Operator to any applications or petitions under any bankruptcy, reorganization, arrangement, insolvency, dissolution or liquidation law, statute, or regulation;

- (ii) the taking or entry of any final judgment for the payment of money in excess of \$100,000 against the Operator which remains outstanding for a period of more than thirty (30) days unless discharged in full or stayed within the thirty (30)-day period;
- (iii) the making by the Operator of any assignment for the benefit of creditors or the admission by it in writing of its inability to pay its debts generally as they become due or the consent by it to the appointment of a receiver, trustee, or liquidator of it or its assets;
- (iv) by the Partnership on the vote of partners whose units equal 65% of the total units;
- (v) by the Partnership on the vote of partners whose units equal a majority of the total units if the Managing General Partner of the Partnership has been removed pursuant to Section 4.04(a)(14) of the Partnership Agreement; or
- (vi) Termination pursuant to (i), (ii), (iii), or (v) above shall be effective immediately upon the Partnership giving written notice thereof to the Operator at the address noted in the first paragraph of this Agreement. Termination pursuant to (iv) above shall be effective on the date stated in a written notice thereof given by the Partnership to the Operator, which date shall not be less than sixty (60) days from the date such notice is received by the Operator.

14.01(b) **Compensation.** On any such removal and termination under this Agreement, the Operator shall be entitled to retain or receive its compensation, reimbursements, and management fees accruing before the removal.

14.01(c) **Liability.** The Operator shall remain liable with respect to matters accruing before removal or termination.

15.01 **Renewal.**

15.01(a) **Initial Term.** This Agreement shall be for an initial term of ten (10) years.

15.01(b) **Renewals.** After the initial ten (10)-year term, the Agreement shall be renewed automatically for additional and successive two (2)-year renewal terms unless written termination notice is given by the Partnership or the Operator to the other Party at least ninety (90) days before the end of any term.

If this Agreement is not renewed for any additional two (2)-year term (either after the initial ten (10)-year term or after any two (2)-year renewal term), the Operator shall be required, at the option of the Partnership exercised in writing, to continue its services and obligations under this Agreement for a one (1)-year period.

15.01(c) **Termination.** On the termination of:

- (i) the initial ten (10)-year term of this Agreement if not renewed;
- (ii) any two (2)-year renewal term if not subsequently renewed; or

- (iii) the one (1)-year additional term following the end of the first ten (10) years or any renewal term;

The Operator shall have no further responsibilities under this Agreement except with respect to matters accruing before the termination and it shall be entitled to retain or receive its compensation, reimbursements, and management fees accruing before the termination.

16.01 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas pertaining to contracts performed and executed in the State of Texas.

17.01 Amendment. Any provision of this Agreement may be waived or modified at any time by the mutual consent of the Partnership and the Operator in writing and signed by the Parties.

18.01 Integration. This Agreement together with the Schedules to this Agreement and the Drilling Agreement referred to in this Agreement, contains the entire agreement of the Parties with respect to the subject matter of this Agreement.

18.01 Attorneys' Fees. The Parties agree that in the event of any litigation begun under this Agreement, the prevailing party as determined on final judgment of a court of competent jurisdiction shall be entitled to reimbursement of all court costs and reasonable attorneys' fees.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have signed this Agreement as of the day and year first above written.

OPERATOR:

U.S. ENERGY DEVELOPMENT CORPORATION



Name: Brandon Standifird

Title: Chief Financial Officer

PARTNERSHIP:

U.S. ENERGY PRIVATE CAPITAL III LP

BY: U.S. Energy Development Corporation, *its
Managing General Partner*



Name: Brandon Standifird

Title: Chief Financial Officer

SCHEDULE A

LEASES

Operator has reserved the right to remove Leases from, or add additional Leases to, this Schedule.

To be determined by Managing General Partner.

SCHEDULE B

COPAS

Operator has reserved the right to revise this Schedule based upon changes, modifications, or alterations to COPAS Accounting Procedures.



COPAS 2005 ACCOUNTING PROCEDURE

SCHEDULE BENEFIT

ACCOUNTING PROCEDURE JOINT OPERATIONS

Attached to and made part of that certain Operating Agreement dated _____, 2025, by and between U.S. Energy Private Capital III L.P. (each the "Partnership") and U.S. Energy Development Corporation (the "Operator").

I. GENERAL PROVISIONS – ACCOUNTING PROCEDURE

IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT . ALI 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

- 1 • Responsibility for day-to-day direct oversight of construction operations
 - 2 • Coordination of job priorities and approval of work procedures
 - 3 • Responsibility for optimal resource utilization (equipment, Materials, personnel)
 - 4 • Responsibility for meeting production and field operating expense targets
 - 5 • Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an
 - 6 incidental part of the supervisor's operating responsibilities
 - 7 • Responsibility for all emergency responses with field staff
 - 8 • Responsibility for implementing safety and environmental practices
 - 9 • Responsibility for field adherence to company policy
 - 10 • Responsibility for employment decisions and performance appraisals for field personnel
 - 11 • Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may
 - 12 have group or team leaders.
- 13 "Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are
- 14 to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the
- 15 Agreement.
- 16 "Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection,
- 17 maintenance, repair, abandonment, and restoration of the Joint Property.
- 18 "Joint Property" means the real and personal property subject to the Agreement.
- 19 "Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other
- 20 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the
- 21 transactions contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter
- 22 amended, enacted, promulgated or issued.
- 23 "Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.
- 24 "Non-Operators" means the Parties to the Agreement other than the Operator.
- 25 "~~Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such~~
- 26 ~~as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water~~
- 27 ~~storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities~~
- 28 ~~necessary in the conduct of offshore operations, all of which are located offshore.~~"
- 29 "Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.
- 30 "On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that
- 31 portion of ~~Offshore Facilities~~, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are
- 32 conducted, or other facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned
- 33 by the Joint Account.
- 34 "Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.
- 35 "Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to
- 36 individually as "Party."
- 37 "Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a
- 38 Party agrees, or is otherwise obligated, to pay and bear.
- 39 "Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear
- 40 a share of the costs and risks of conducting an operation under the Agreement.
- 41 "Personal Expenses" means reimbursed costs for travel and temporary living expenses.
- 42 "Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an
- 43 actual railhead may not exist.

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

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

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

10 2. STATEMENTS AND BILLINGS

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

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

26 3. ADVANCES AND PAYMENTS BY THE PARTIES

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

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

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

1 **4. ADJUSTMENTS**

- 2 A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof;
3 however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively
4 be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end
5 of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a
6 claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an
7 audit report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).
- 8 B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section I.4.B, are
9 limited to the twenty-four (24) month period following the end of the calendar year in which the original charge
10 appeared or should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that
11 may be made beyond the twenty-four (24) month period are limited to adjustments resulting from the following:
- 12 (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable*
13 *Material*), or
- 14 (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception
15 granted by the Operator relating to another property, or
- 16 (3) a government/regulatory audit, or
- 17 (4) a working interest ownership or Participating Interest adjustment.

18 **5. EXPENDITURE AUDITS**

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

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

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

38 A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall,
39 with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against
40 such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims
41 for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this
42 Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section I.5.B or I.5.C, the
43 Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-
44 Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations; provided that such
45 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.

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

- 51 C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and
52 the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided,
53 however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's
54 position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in
55 Section I.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period,

1 the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the
2 audit report. Interest shall be calculated using the rate set forth in Section 13.B (*Advances and Payments by the*
3 *Parties*).

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

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

29 E. ~~Forfeiture/Penalties~~

30 ~~—~~
31 ~~If the Non-Operators fail to meet the deadline in Section 15.C, any unresolved exceptions that were not addressed~~
32 ~~by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be~~
33 ~~deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section 15.B~~
34 ~~or 15.C, any unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of~~
35 ~~the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed~~
36 ~~to have been granted by the Operator and adjustments shall be made, without interest, to the Joint Account.~~

37 6. APPROVAL BY PARTIES

38 A. General Matters:

39 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of
40 this Accounting Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary
41 provisions in regard thereto, the Operator shall notify all Non-Operators of the Operator's proposal and the agreement
42 or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

43 This Section 16.A applies to specific situations of limited duration where a Party proposes to change the accounting
44 for charges from that prescribed in this Accounting Procedure. This provision does not apply to amendments to this
45 Accounting Procedure, which are covered by Section 16.B.

46 B. Amendments

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

51 C. Affiliates

52 For the purpose of administering the voting procedures of Sections 16.A and 16.B, if Parties to this Agreement are
53 Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined
54 working interest or Participating Interest of such Affiliates.

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

4 II. DIRECT CHARGES

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

6 1. RENTALS AND ROYALTIES

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

8 2. LABOR

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

- 11 (1) Operator's field employees directly employed On-site in the conduct of Joint Operations,
- 12 (2) Operator's employees directly employed on Shore Base Facilities, ~~Offshore Facilities~~ or other facilities serving
13 the Joint Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by*
14 *Operator*) or are not a function covered under Section III (*Overhead*),
- 15 (3) Operator's employees providing First Level Supervision,
- 16 (4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded
17 from the overhead rates in Section III (*Overhead*),
- 18 (5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded
19 from the overhead rates in Section III (*Overhead*).

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

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

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

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

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

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

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

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

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

3 **3. MATERIAL**

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

8 **4. TRANSPORTATION**

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

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

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

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

22 **5. SERVICES**

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

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

29 **6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR**

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

32 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not
33 limited to production facilities, Shore Base Facilities, ~~Offshore Facilities~~, and Field Offices, at rates commensurate
34 with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices
35 provide direct service to personnel who are chargeable pursuant to Section II.2.A (Labor). Such rates may include
36 labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation
37 method, and interest on gross investment less accumulated depreciation not to exceed per annum; provided,
38 however, depreciation shall not be charged when the equipment and facilities investment have been fully depreciated.
39 The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates
40 shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

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

47 **7. AFFILIATES**

48 A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the
49 Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate
50 goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such
51 Affiliate's goods and services billed to such individual project do not exceed . If the total costs for an

1 Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or
2 authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to
3 Section I.6.A (General Matters).

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

7 C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the
8 Joint Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately
9 document and support commercial rates and shall periodically review and update the rate and the supporting
10 documentation; provided however, documentation of commercial rates shall not be required if the Operator obtains
11 Non-Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliates goods and
12 services. Notwithstanding the foregoing, direct charges for Affiliate-owned communication facilities or systems shall
13 be made pursuant to Section II.12 (Communications). ~~If the Parties fail to designate an amount in Sections II.7.A or~~
14 ~~II.7.B, in each instance the amount deemed adopted by the Parties as a result of such omission shall be the amount~~
15 ~~established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an~~
16 ~~Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be one~~
17 ~~dollar (\$0.00).~~

18 8. DAMAGES AND LOSSES TO JOINT PROPERTY

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

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

24 9. LEGAL EXPENSE

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

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

33 10. TAXES AND PERMITS

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

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

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

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

49 11. INSURANCE

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

8 12. COMMUNICATIONS

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

18 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

19 Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or
20 standards recommended by Occupational Safety and Health Administration (OSHA) or other regulatory
21 authorities. All other labor and functions incurred for ecological, environmental and safety matters, including
22 management, administration, and permitting, shall be covered by Sections II.2 (*Labor*), II.3 (*Services*), or Section III
23 (*Overhead*), as applicable. Costs to provide or have available pollution containment and removal equipment plus
24 actual costs of control and cleanup and resulting responsibilities of oil and other spills as well as discharges from
25 permitted outfalls as required by applicable Laws, or other pollution containment and removal equipment deemed
26 appropriate by the Operator for prudent operations, are directly chargeable.

27 14. ABANDONMENT AND RECLAMATION

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

30 15. OTHER EXPENDITURES

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

35 III. OVERHEAD

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

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

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

- 1 • management
- 2 • supervision not directly charged under Section II.2 (*Labor*)
- 3 • legal services not directly chargeable under Section II.9 (*Legal Expense*)
- 4 • taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
- 5 • preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings
- 6 with governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site
- 7 inspections; reviewing, interpreting, or submitting comments on or lobbying with respect to Laws or proposed
- 8 Laws.
- 9 Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses
- 10 of personnel performing overhead functions, as well as office and other related expenses of overhead functions.

11 **1. ~~DRILLING AND PRODUCING OPERATIONS~~**

12 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other

13 provisions of this Section III, the Operator shall charge on either: *Fixed Rate Basis, Section III.1.B*

14 **A. Technical Services**

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

23 Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are

24 subject to limitations set forth in Section II.7 (*Affiliates*). Charges for Technical personnel performing non-technical

25 work shall not be governed by this Section III.1.A, but instead governed by other provisions of this Accounting

26 Procedure relating to the type of work being performed.

27 **B. Fixed Rate Basis**

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

29 ~~Drilling Well Rate per month (prorated for less than a full month)~~

30 Producing Well Rate per month - The monthly rate which the Operator may charge shall be determined on

31 a well by well basis, after consideration of relevant factors including geographic location, type and depth of

32 well, if a horizontal well - length of lateral, type and volume of hydrocarbons produced, and proximity to

33 other Partnership wells and such rate shall be competitive with the amount charged by other operators in

34 the same geographic area.

35 ~~Application of Overhead—Drilling Well Rate shall be as follows: Charges for onshore drilling~~

36 ~~wells shall begin on the spud date and terminate on the date the drilling and/or completion~~

37 ~~equipment used on the well is released, whichever occurs later. Charges for offshore and inland~~

38 ~~waters drilling wells shall begin on the date the drilling or completion equipment arrives on~~

39 ~~location and terminate on the date the drilling or completion equipment moves off location, or is~~

40 ~~released, whichever occurs first. No charge shall be made during suspension of drilling and/or~~

41 ~~completion operations for fifteen (15) or more consecutive calendar days. Charges for any~~

42 ~~well undergoing any type of workover, recompletion, and/or abandonment for a period of five~~

43 ~~(5) or more consecutive workdays shall be made at the Drilling Well Rate. Such charges shall be~~

44 ~~applied for the period from date operations, with rig or other units used in operations, commence~~

45 ~~through date of rig or other unit release, except that no charges shall be made during suspension~~

46 ~~of operations for fifteen (15) or more consecutive calendar days.~~

- 47 (2) 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.
- (3) ~~The well rates shall may be adjusted in the reasonable discretion of Operator if the circumstances under which the rates were initially determined change 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 payment accounting under a farmout agreement, the rate 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 CORAS. 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 rate, in accordance with CORAS MFL-47 ("Adjustment of Overhead Rates").~~

C. ~~Percentage Basis~~

~~Operator shall charge the Joint Account at the following rates: Development Rate—of the cost of development of the Joint Property, exclusive of costs provided under Section II.9 (Legal Expense) and all Material salvage credits; Operating Rate—of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1 (Rentals and Royalties) and II.9 (Legal Expense); all Material salvage credits; the value of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that are levied, assessed, and paid upon the mineral interest in and to the Joint Property. Application of Overhead—Percentage Basis shall be as follows: The Development Rate shall be applied to all costs in connection with drilling, re-drilling, sidetracking, or deepening of a well; a well undergoing plugback or workover operations for a period of five (5) or more consecutive work-days; preliminary expenditures necessary in preparation for drilling; expenditures incurred in abandoning when the well is not completed as a producer; reconstruction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 (Overhead Major Construction and Catastrophe). The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2 (Overhead Major Construction and Catastrophe).~~

2. MAJOR CONSTRUCTION AND CATASTROPHE

To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator shall ~~determine 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, ~~but shall not include the drilling of the subject wells to their initial target formation, 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.

1 A. ~~If the Operator absorbs the engineering, design and drafting costs related to the project—~~
2 ~~of total costs if such costs are less than \$100,000; plus of total costs in excess of \$100,000 but~~
3 ~~less than \$1,000,000; plus of total costs in excess of \$1,000,000. If the Operator charges~~
4 ~~engineering, design and drafting costs related to the project directly to the Joint Account, of total~~
5 ~~costs if such costs are less than \$100,000; plus of total costs in excess of \$100,000 but less than~~
6 ~~\$1,000,000; plus of total costs in excess of \$1,000,000. Total cost shall mean the gross cost of any~~
7 ~~one project. For the purpose of this paragraph, the component parts of a single Major~~
8 ~~Construction project shall not be treated separately, and the cost of drilling and workover wells~~
9 ~~and purchasing and installing pumping units and downhole artificial lift equipment shall be~~
10 ~~included. For Catastrophes, the rates shall be applied to all costs associated with each single~~
11 ~~occurrence or event. On each project, the Operator shall advise the Non-Operator(s) in advance~~
12 ~~which of the above options shall apply. For the purposes of calculating Catastrophe Overhead, the~~
13 ~~cost of drilling relief wells, substitute wells, or conducting other well operations directly~~
14 ~~resulting from the catastrophic event shall be included. Expenditures to which these rates apply~~
15 ~~shall not be reduced by salvage or insurance recoveries. Expenditures that qualify for Major~~
16 ~~Construction or Catastrophe Overhead shall not qualify for overhead under any other overhead~~
17 ~~provisions. In the event of any conflict between the provisions of this Section III.2 and the~~
18 ~~provisions of Sections II.2 (Labor), II.5 (Services), or II.7 (Affiliates), the provisions of this~~
19 ~~Section III.2 shall govern.~~

20 3. AMENDMENT OF OVERHEAD RATES

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

23 IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

29 1. DIRECT PURCHASES

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

40 2. TRANSFERS

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

48 A. PRICING

49 The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of
50 physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators
51 sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are
52 used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well
53 design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties.

1 pursuant to Section I.6.A (General Matters). Transfer of new Material will be priced using one of the following
2 pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between
3 methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

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

6 ~~For oil-country tubulars and line pipe, the published price shall be based upon eastern mill~~
7 ~~carload base prices (Houston, Texas, for special end) adjusted as of date of movement, plus~~
8 ~~transportation cost as defined in Section IV.2.B (Freight). For other Material, The the published~~
9 ~~price shall be the published list price in effect at date of movement, as listed by a Supply Store~~
10 ~~nearest the Joint Property where like Material is normally available, or point of manufacture~~
11 ~~plus transportation costs as defined in Section IV.2.B (Freight).~~

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

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

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

17 B. FREIGHT

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

21 (1) ~~Transportation costs for oil-country tubulars and line pipe shall be calculated using the distance from eastern mill~~
22 ~~to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFL-25~~
23 ~~(Material Pricing Manual) and other COPAS MFLs in effect at the time of the transfer.~~

24 ~~Transportation costs for special mill items shall be calculated from that mill's shipping point to~~
25 ~~the Railway Receiving Point. For transportation costs from other than eastern mills, the 30,000-~~
26 ~~pound interstate truck rate shall be used. Transportation costs for macaroni tubing shall be~~
27 ~~calculated based on the interstate truck rate per weight of tubing transferred to the Railway~~
28 ~~Receiving Point. Transportation costs for special end tubular goods shall be calculated using the~~
29 ~~interstate truck rate from Houston, Texas, to the Railway Receiving Point.~~

30 (2) Transportation costs for Material, ~~if any, other than that described in Sections IV.2.B(1) through (3), shall be~~
31 ~~calculated from the Supply Store, or point of manufacture, whichever is appropriate, to the Railway Receiving~~
32 ~~Point. Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from~~
33 ~~the Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the~~
34 ~~Joint Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as~~
35 ~~provided in Section II.4 (Transportation) of this Accounting Procedure.~~

36 C. TAXES

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

41 D. CONDITION

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

- 1 preparation costs incurred, including any internal or external coating and wrapping, will be credited on new
2 Material provided these services were not repeated for such Material for the receiving property.
- 3 (2) Condition "B" – Used Material in sound and serviceable condition and suitable for reuse without reconditioning
4 shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C
5 (*Taxes*) by seventy-five percent (75%).
- 6 Except as provided in Section IV.2.D(3), all reconditioning costs required to return the Material to Condition "B" or to
7 correct handling, transportation or other damages will be borne by the diverting property.
- 8 If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint
9 Property, the Material will be credited at the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and
10 IV.2.C (*Taxes*) multiplied by sixty-five percent (65%).
- 11 Unless otherwise agreed to by the Parties that paid for such Material, used Material transferred from the Joint Property
12 that was not placed in service on the property shall be credited as charged without gain or loss.
- 13 (3) Condition "C" – Material that is not in sound and serviceable condition and not suitable for its original function
14 until after reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*),
15 IV.2.B (*Freight*), and IV.2.C (*Taxes*) by fifty percent (50%).
- 16 The cost of reconditioning may be charged to the receiving property to the extent Condition "C" value, plus cost of
17 reconditioning, does not exceed Condition "B" value.
- 18 (4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other
19 purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other
20 applications as a substitute for items with different specifications, is considered Condition "D" Material. Casing,
21 tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and
22 weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing,
23 tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be
24 priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a
25 non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with
26 the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A
27 (*General Matters*).
- 28 (5) Condition "E" – Junk shall be priced at prevailing scrap value prices.

29 E. OTHER PRICING PROVISIONS

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

42 3. DISPOSITION OF SURPLUS

- 43 Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator
44 may purchase, but shall be under no obligation to purchase, the interest of the Non-Operators in surplus Material.
- 45 Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the
46 Joint Property to either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus
47 Material, the Operator should make good faith efforts to dispose of surplus within twelve (12) months through
48 buy/sale agreements, trade, sale to a third party, division in kind, or other dispositions as agreed to by the Parties.

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

- 4 • The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale
5 value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this
6 Accounting Procedure is attached without the prior approval of the Parties owning such Material.
- 7 • If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such
8 Material.
- 9 • Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material,
10 based on the pricing methods set forth in Section IV.2 (Transfers).
- 11 • Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value
12 of the Materials, based on the pricing methods set forth in Section IV.2 (Transfers), is less than or equal to the
13 Operator's expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting
14 the classification of the Material as Condition C.
- 15 • Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior
16 approval of the Parties owning such Material.

17 4. SPECIAL PRICING PROVISIONS

18 A. PREMIUM PRICING

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

25 B. SHOP-MADE ITEMS

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

31 C. MILL REJECTS

32 Mill rejects purchased as "limited service" casing or tubing purchased from a Supply Store or other third party shall be
33 charged at Operator's cost shall be priced at eighty percent (80%) of SC-55-T-55 price as determined in Section IV.2
34 (Transfers). Line pipe converted to casing or tubing with casing or tubing couplings attached shall be priced as K-
35 55-T-55 casing or tubing at the nearest size and weight.

36 V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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

44 1. DIRECTED INVENTORIES

45 Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the
46 Non-Operators (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform
47 directed inventories more frequently than once every five (5) years. Directed inventories shall be commenced within

1 one hundred eighty (180) days after the Operator receives written notice that a majority in interest of the Non-
2 Operators has requested the inventory. All Parties shall be governed by the results of any directed inventory.

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

- 8 A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of
9 the personnel performing the inventory or a rate agreed to by the Parties pursuant to Section I.6.A (*General*
10 *Matters*). The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report
11 preparation.
- 12 B. Actual transportation costs and Personal Expenses for the inventory team.
- 13 C. Reasonable charges for report preparation and distribution to the Non-Operators.

14 **2. NON-DIRECTED INVENTORIES**

15 **A. OPERATOR INVENTORIES**

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

19 **B. NON-OPERATOR INVENTORIES**

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

24 **C. SPECIAL INVENTORIES**

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

EXHIBIT B

TAX OPINION

U.S. Energy Development Corporation (“**USED**”)
1521 N. Cooper Street, Suite 400
Arlington, Texas 76011

Allen Overy Shearman Sterling US LLP

599 Lexington Avenue
New York, NY 10022

Tel +1 212 848 4000

Fax +1 212 610 6399

April 4, 2025

Re: **U.S. Energy Private Capital III LP**

Ladies and Gentlemen:

We have acted as US tax counsel to U.S. Energy Private Capital III LP, a Delaware limited partnership (the “**Partnership**”), in connection with the offering of limited partnership interests in the Partnership (“**Partnership Interests**”) pursuant to the Amended and Restated Agreement of Limited Partnership of U.S. Energy Private Capital III LP (the “**Partnership Agreement**”) dated April 4, 2025 among U.S. Energy Development Corporation, as Managing General Partner (the “**Managing General Partner**”) and those persons identified on the records of the Partnership as Limited Partners. In connection with the organization of the Partnership, we have been asked by the Partnership for our opinion as to whether, for United States federal income tax purposes, the Partnership will be treated as a partnership that is treated as a publicly traded partnership taxable as a corporation. Capitalized terms used and not otherwise defined herein will have the meanings given in the Partnership Agreement.¹

Our legal opinion is limited solely to the statement listed in Part IV of this letter, titled “Opinion” (our “**Opinion**”), and are subject to the limitations discussed herein, including in Part VI of this letter, titled “Limitations.” We express no legal opinion regarding any other issue, including but not limited to any non-tax or other tax consequences, such as:

- U.S. state or local tax consequences;
- U.S. alternative minimum tax consequences;
- non-U.S. tax consequences; and
- any other legal, regulatory, accounting, or financial reporting consequences.

¹ References to “you,” “your,” and words of similar import herein refer to USED. References to “we,” “us,” “our,” and words of similar import refer to Allen Overy Shearman Sterling US LLP. Unless otherwise noted, references herein to “Section” or “§” refer to the Internal Revenue Code of 1986, as amended or the Treasury Regulations promulgated thereunder, each as in effect on the date of this letter.

Our Opinion is based on current U.S. federal income tax laws, which are subject to change, and the facts and assumptions identified in this letter. We have not independently verified any factual matters or assumptions in connection with our preparation of this opinion or otherwise. Accordingly, our Opinion does not take into account any matters not set forth herein which might have been disclosed by independent verification. Should any of the facts, circumstances, or assumptions on which we have relied subsequently be determined to be incorrect or inaccurate, our conclusions may vary from those set forth below, and such variance could be material.

I. DOCUMENTS REVIEWED

For purposes of our Opinion, we have examined and relied upon the following documents and information (collectively, the “**Transaction Documents**”):

- A. Confidential Private Placement Memorandum of U.S. Energy Private Capital III LP, dated April 4, 2025 (the “**PPM**”);
- B. The Partnership Agreement; and
- C. Such other documents and information that we have considered relevant to our analysis.

Capitalized terms used but not defined in this letter shall have the meanings given to such terms in the Partnership Agreement.

II. STATEMENT OF FACTS

For purposes of our Opinion, we have relied on the following facts which are based on representations made by you, our review of the Transaction Documents and our understanding regarding the Partnership and its anticipated investments and activities. Any material inaccuracy in the following facts may render our Opinion inapplicable.

A. The Partnership.

The Partnership has been formed as a Delaware limited partnership under the provisions of the Delaware Revised Uniform Limited Partnership Act (the “**Act**”) and will be operated in accordance with such Act and the terms and conditions of the Partnership Agreement. USEDCC will be the Managing General Partner.

General Partner interests (the “**GP Interests**”) are treated as general partner interests under Delaware law. Investor Limited Partner interests (the “**LP Interests**”, and collectively with the “**GP Interests**”, the “**Units**”) are treated as limited partner interests under Delaware law. In contrast to the GP Interests, the LP Interests limit the liability of the investors to their capital invested in the Partnership.

B. The Partnership Agreement.

The Partnership Agreement will be executed by the Managing General Partner and the Limited Partners who will join the Partnership by executing Subscription Agreements for Limited Partner Units. The Partnership Agreement requires the document to be executed and recorded in all places required under the Delaware Revised Uniform Limited Partnership Act.

In addition to being formed as a partnership under Delaware law, the Partnership has not elected, and will not elect, to be excluded from the partnership provisions of the Code. The Partnership Agreement provides that the Partnership will be subject to the partnership provisions of the Code for federal tax purposes and will not elect to be taxed as a corporation for federal tax purposes.

The Managing General Partner is required to make capital contributions to the extent necessary to cover costs charged to it under the Partnership Agreement and is also required to contribute to the Partnership to the extent of any deficit balance in the Managing General Partner's capital account upon liquidation of the Partnership or the Managing General Partner's interest.

Section 2.04 provides that the purpose of the Partnership is to engage in all phases of the oil and natural gas business, participate in Alternative Energy Projects, and invest in, acquire and/or operate other energy related assets, subject to certain limitations. Additionally, the Managing General Partner is restricted from changing the Partnership business purpose without the affirmative vote of Participants whose Units equal a Majority in Interest of the Partners.

Section 6.05 of the Partnership Agreement provides that beginning 24 months after 75 percent or more of all Partnership funds are invested, Limited Partners may make a written request for the Managing General Partner to repurchase their Units (the "**Presentment Feature**"). The Presentment Feature contains the following limitations:

(i) the Limited Partners may only make a request to have their Units repurchased between January 1 and March 31 of each year and such request may only be made once per year;

(ii) the presentment price either (a) is not established until at least 60 calendar days after the receipt of such Limited Partner's request by the Partnership or Partner; or (b) is established not more than four times during the Partnership's taxable year;

(iii) the Managing Partner will not purchase less than one Unit unless the fractional interest represents a Limited Partner's entire interest;

(iv) the Managing Partner will not purchase more than 10 percent of the Units in any calendar year; and

(v) the Managing General Partner may not make such repurchase until at least sixty (60) calendar days after a Limited Partner notifies the Partnership in writing of an intention to exercise the Presentment Feature.

The presentment price will generally constitute a Limited Partner's share of the Partnership's net assets (after deduction of Partnership liabilities). The Managing General Partner shall hold any repurchased Units acquired by it pursuant to the Presentment Feature for its own account and not for resale.

III. ASSUMPTIONS

In rendering our Opinion, we have relied on the following assumptions:

A. All documents reviewed for purposes of our Opinion are originals or conformed copies thereof, and no alteration has been or will be made to such documents prior to the date of our Opinion.

B. All facts contained herein are accurate in all material respects.

C. All representations and warranties in the Transaction Documents will remain true in all material respects, each Transaction Document will be executed in the same form as on the date of our Opinion, and each party to a Transaction Document will comply with its covenants therein.

D. All parties have and will fully comply with the terms of the Transaction Documents and all other documents referred to herein and that where any action or decision by any such party requires the exercise of discretion, that such party's determination or, where permitted under the Transaction Documents, the legal advice or legal opinions of such party's legal counsel (excluding our advice or opinion), was correct in all material respects and in compliance with the relevant document, without regard to any standard of care imposed by such document.

E. The Transaction Documents are enforceable under local law.

F. The Transaction Documents will not be amended in a substantial or material manner.

G. The Units will not be traded on an established securities market, and no more than 10 percent of the Units of the Partnership will be transferred in any taxable year of the Partnership (other than in private transfers described in Regulation Section 1.7704-l(e)).

IV. OPINION

Based on the facts and assumptions set forth above and the analysis set forth below, and subject to the limitations discussed herein, we are of the opinion that the Partnership should not be treated as a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes.

V. LAW AND ANALYSIS

Section 7704 generally provides that a “publicly traded partnership” shall be treated as a corporation for federal income tax purposes. For purposes of Section 7704, publicly traded partnership means any partnership if (1) interests in such partnership are traded on an established securities market, or (2) interests in such partnership are readily tradable on a secondary market (or the substantial equivalent thereof).²

Treasury Regulations promulgated under Section 7704 provide additional detail as to the meaning of interests being traded on a securities market or on a secondary market. Specifically, an established securities market includes (1) a national securities exchange registered under section 6 of the Securities Exchange Act of 1934; (2) a national securities exchange exempt from registration under section 6 of the Securities Exchange Act of 1934; (3) a foreign securities exchange that, under the law of the jurisdiction where it is organized, satisfies regulatory requirements that are analogous to the regulatory requirements under the Securities Exchange Act of 1934; (4) a regional or local exchange; and (5) an interdealer

² Code §§ 7704(b)(1), (2).

quotation system that regularly disseminates firm buy or sell quotations by identified brokers or dealers by electronic means or otherwise.³

In addition, the Treasury Regulations provide that interests are readily tradable on a secondary market or the substantial equivalent thereof if, taking into account all of the facts and circumstances, the partners are readily able to buy, sell, or exchange their partnership interests in a manner that is comparable, economically, to trading on an established securities market.⁴ Examples of this include a system whereby the interests are quoted to the public by a broker, with such broker providing bid ask spreads to the interested buyers and sellers; or, from a seller or buyers perspective, having a readily accessible market in which to trade their interests.⁵

Recognizing that partnerships such as the Partnership may provide limited liquidity optionality to investors, the Treasury Regulations provide a number of safe harbors pursuant to which transfers can be implemented without resulting in a partnership being a publicly traded partnership taxable as a corporation.⁶ Examples of safe harbors include having less than 100 partners (and meeting certain additional conditions), only allowing transactions that are not in the nature of trades (e.g., carryover basis transactions), or less than 2 percent of the capital of the Partnership being traded on an annual basis.⁷

As relevant to the Partnership, the Code provides a safe harbor under which certain transfers of interests in a partnership pursuant to a “redemption or repurchase agreement” are disregarded for purposes of determining whether interests in a partnership are readily tradable.⁸ For a transfer pursuant to a redemption or repurchase agreement to be disregarded, the following elements must be met:

(i) the redemption is made pursuant to a redemption agreement⁹;

(ii) the redemption cannot occur until at least 60 calendar days after the partnership receives written notice of a partner's intention to exercise the redemption right;

(iii) either (a) the redemption price is not established until at least 60 calendar days after receipt of such notice by the partnership or partner; or (b) the redemption price is established not more than four times during the partnership's taxable year; and

(iv) the sum of the percentage interests in partnership capital or profits transferred during the taxable year of the partnership (other than in private transfers disregarded by the Code) does not exceed 10 percent of the total interests in partnership capital or profits.¹⁰

³ Treas. Reg. §§ 1.7704-1(b)(1)-(5).

⁴ Treas. Reg. § 1.7704-1(c)(1).

⁵ See generally Treas. Reg. § 1.7704-1(c)(2).

⁶ Treas. Reg. § 1.7704-1(e), (f), (g), (h), (j).

⁷ *Id.*

⁸ Treas. Reg. § 1.7704-1(f)

⁹ Treas. Reg. § 1.7704-1(e)(3) Very generally, a redemption agreement means a plan of redemption maintained by a partnership whereby the partners may tender their partnership interests for purchase by the partnership, another partner, or a person related to another partner.

¹⁰ Treas. Reg. § 1.7704-1(f)

The Partnership Agreement generally applies restrictions to transfers of interests. Moreover, the Managing General Partner must review and approve of any transfers, noting it has the absolute right to condition a transfer on the Managing General Partner's receipt of an opinion of counsel that the transfer will not cause the Partnership to be treated as a publicly traded partnership taxable as a corporation. Further, with respect to the Presentment Feature, Section 6.05 of the Partnership Agreement also provides the following restrictions: (i) the Limited Partners may only make a request to have their Limited Partner Interests repurchased between January 1 and March 31 of each year and such request may only be made once per year; (ii) the presentment price either (a) is not established until at least 60 calendar days after the receipt of such Limited Partner's request by the Partnership or Partner, or (b) is established not more than four times during the Partnership's taxable year; (iii) the Managing Partner will not purchase less than one Limited Partner Interest unless the fractional Limited Partner Interest represents a Limited Partner's entire interest, nor more than 10 percent of the Units in the Partnership in any calendar year; and (iv) the Managing General Partner may not make such repurchase until 60 calendar days after a Limited Partner notifies the Partnership in writing of an intention to exercise the presentment. The presentment price will generally constitute a Limited Partner's share of the Partnership's net assets (after deduction of Partnership liabilities).

On the basis of the foregoing, including in particular the Presentment Feature, we are of the opinion that the Partnership should not be treated as a publicly traded partnership for U.S. federal income tax purposes.

VI. LIMITATIONS

Our Opinion is expressly limited in scope to the issues listed herein, and no opinion is to be implied or inferred with respect to any other issue, including but not limited to state or foreign tax issues. Additional issues may exist that could affect the federal tax treatment of the transactions that are the subject of our Opinion. Our Opinion does not consider or provide a conclusion with respect to any additional issues. To the extent there are additional issues, our Opinion does not provide any protection against possible penalties. Our Opinion shall not be construed as or deemed to be a guaranty or insuring agreement. Our Opinion is based upon an analysis and interpretation of current U.S. federal income tax laws, including an analysis of existing statutory and regulatory provisions as interpreted by the courts as of the date of this letter. These laws are subject to change and any such changes may be effective retroactively and may cause the U.S. federal income tax treatment of the issue described herein to be different than the treatment described herein. We undertake no obligation to advise you of any changes or developments that may affect our Opinion or any matters set forth herein. Our Opinion is based in part upon our understanding of the facts and assumptions set forth above. Our Opinion is stated and effective as of the date first above written. Our Opinion is intended for the sole benefit of the addressee of this letter and may not be relied upon by any other party without the prior written consent of Allen Overy Shearman Sterling US LLP.

Very truly yours,

Allen Overy Shearman Sterling US LLP

ALLEN OVERY SHEARMAN STERLING US LLP

EXHIBIT C

LLC OPERATING AGREEMENT

LIMITED LIABILITY COMPANY OPERATING AGREEMENT
OF
U.S. ENERGY PRIVATE CAPITAL III LLC

THIS OPERATING AGREEMENT (this “Agreement”) is entered into as of April 4, 2025, by the parties whose names appear on Schedule A hereto, or on any amendment of, or addendum to, Schedule A, approved by the Manager, which parties are hereinafter referred to as the members (“Members”) of U.S. Energy Private Capital III LLC (the “Company”).

WHEREAS, the Members desire to set forth the terms and conditions relating to the governance of the Company as set forth in this Agreement.

NOW, THEREFORE, the Members hereby agree as follows:

1. Definitions. Capitalized terms used herein but not defined shall have the meanings ascribed to them in the Memorandum. As used in this Agreement, the following defined terms have the following meanings:

(a) Act. “Act” means the Delaware Limited Liability Company Act, and any successor statute, as amended from time to time.

(b) Company. “Company” means U.S. Energy Private Capital III LLC.

(c) Claims and Expenses. “Claims and Expenses” means, with respect to the Manager, any and all liabilities, obligations, losses, damages, fines, taxes and interest and penalties thereon, threatened or actual claims, demands, actions, suits, proceedings (whether civil, criminal, administrative, investigative, or otherwise), costs, expenses, and disbursements (including, without limitation, legal and accounting fees and expenses, costs of investigation incurred in defending any threatened or actual claim, demand, action, suit, or proceeding in advance of the final settlement of such matter and sums paid in settlement) of any kind or nature whatsoever, which may be imposed on, incurred by, or asserted at any time against the Manager in any way related to or arising out of this Agreement, the Company, the operations of the Company, or the management, administration, or activities of the Manager on behalf of the Company; *provided that* in no event shall such claims and expenses include any damages which represent loss of profit, goodwill, business opportunity, anticipated saving, indirect losses, special or punitive losses, or consequential losses to the Manager.

(d) Manager. “Manager” means, at any time, the person or entity who or which is then managing the business of the Company in accordance with the terms of this Agreement. The initial Manager of the Company is U.S. Energy Development Corporation whose address for the transaction of business is 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164.

(e) Membership Interest. “Membership Interest” means the interest of the Members in the Company, including without limitation the right to vote, the right to share in the

profits and losses of the Company and the right to receive distributions and allocations from the Company.

(f) Memorandum. “Memorandum” means the Confidential Private Placement Memorandum of the Partnership dated April 4, 2025, as amended or supplemented from time to time.

(g) Partnership. “Partnership” means U.S. Energy Private Capital III LP.

(h) Partnership Agreement. “Partnership Agreement” means the Partnership’s Amended and Restated Agreement of Limited Partnership (as amended, modified or supplemented from time to time, the “Partnership Agreement”).

2. Formation. The Company has been formed as a limited liability company pursuant to the provisions of the Act.

3. Name. The Company will conduct business under the name “U.S. Energy Private Capital III LLC” or such other names as the Manager may designate after notice to the Members, which notice may be sent by U.S. Mail or e-mail to the addresses on Schedule A or to a replacement address that has been provided, in writing, by a Member to the Manager.

4. Principal Office. The principal office of the Company is 601 E. Exchange Avenue, Suite 100, Fort Worth, Texas 76164, or at such other place as the Manager may designate. The Company may maintain other offices as the Manager deems advisable after receiving the written approval of the Members.

5. Purpose. The Company is formed for the object and purpose of, and the nature of the business to be conducted and promoted by the Company is, engaging in any lawful act or activity for which limited liability companies may be formed under the Act and engaging in any and all activities necessary or incidental to the foregoing.

The Company shall utilize the Capital Contributions of the Members made under each Member’s execution and Subscription Booklet, including all relevant Exhibits, Annexes and supplementary documents referenced therein (the “Subscription Agreement”) to acquire, in the name of the Company, units of limited partnership (the “Units”) in the Partnership according to the terms and conditions set out in the Memorandum. The Company shall acquire the Units as a limited partner in the Partnership and shall thereafter exercise the rights, and fulfill any obligations, of a limited partner in the Partnership.

6. Membership Interest. The Members collectively own a one hundred percent (100%) Membership Interest in the Company. Each Member will own a pro rata share of Membership Interests, based upon the percentage of its Capital Contribution to the Company to the total Capital Contributions to the Company made by all Members.

7. Capital Contribution. Each Member has made, or will make, a Capital Contribution to the Company and such contribution is reflected in Schedule A hereto and in the Members’ capital account.

8. Additional Capital Contributions. Except as provided in a Member's Subscription Agreement, the Members are not required to make any additional Capital Contribution to the Company.

9. Assignment. The Members may only assign, in whole or in part, the Members' Membership Interest to entities that are, as of the date of such assignment, "accredited investors" as such term is defined in Rule 501(a) of Regulation D promulgated under the U.S. Securities Act of 1933, as amended from time to time, or any successor thereto, and subject to compliance with the transfer requirements set forth in the Memorandum.

10. Admission of Additional Members. One or more additional Members of the Company may be admitted to the Company in the sole discretion of, and upon the approval of the Manager. The Manager may only approve persons, including individuals that satisfy the requirements set forth below, as new Members in accordance with the terms set forth below. The decision whether or not to approve an entity that meets the requirements set forth below shall be in the sole discretion of the Manager.

(a) The proposed new Member must be an "accredited investor" as such term is defined in Rule 501(a) of Regulation D promulgated under the U.S. Securities Act of 1933, as amended from time to time, or any successor thereto.

(b) The proposed new Member must be a Qualified Entity as described in the Memorandum or a non-Qualified Entity who has elected to invest as a Member of the Company.

(c) The proposed new Member must complete a Subscription Agreement to participate in the Company.

(d) A proposed new Member's minimum Capital Contribution must be \$100,000 (however, the Manager, in its sole discretion, may approve a proposed new Member making a lower Capital Contribution). Capital Contributions in excess of \$100,000 must be made in increments of \$1,000.

(e) The proposed new Member must execute an amendment of, or addendum to, this Agreement, identifying it as a Member of the Company and agreeing to be bound by the terms and provisions of this Agreement.

(f) After the minimum required Subscriptions to the Partnership have been accepted, new Members will be admitted to the Company no later than the last day of the calendar month in which their Subscription Agreement was accepted by the Manager.

11. Liability to Third Parties. Except as provided in a Member's Subscription Agreement, no Member will be liable for the debts, obligations or liabilities of the Company in excess of its Capital Contribution, including under a judgment, decree or order of a court.

12. Allocation of Profits and Losses. The Company's profits and losses will be allocated to the Members according to the Member's Membership Interest, which shall be determined by the percentage a Member's Capital Contribution represents of the total of all Capital Contributions by the Members.

13. Distributions. Distributions from the Company will be made to the Members according to the Member's Membership Interest at the times and in the aggregate amounts determined by the Manager and in compliance with applicable law.

14. Tax Election. The Company shall, and hereby does, elect to be taxed as a corporation.

15. Management of the Company.

(a) **Management by Manager.** The powers of the Company will be exercised by, or under the authority of, and the business and affairs of the Company will be managed under the direction of, the Manager. Any person or entity dealing with the Company, other than a Member, may rely on the authority of the Manager and officers appointed thereby in taking any action in the name of the Company without inquiry into the provisions of, or compliance with, this Agreement, regardless of whether that action is actually taken in accordance with the provisions of this Agreement.

(b) **Powers of the Manager.** Except as otherwise herein provided, the Manager will have full, complete and exclusive power to manage and control the Company, and will have the authority to take any action the Manager deems to be necessary, convenient or advisable in connection with the management of the Company.

(c) The Manager will at all times act in a fiduciary capacity for the Company, as such duties and obligations are modified by this Agreement, the Partnership Agreement and the Memorandum (and it being understood that taking or omitting to take any action that the Manager was permitted or required to take or omit for its own account pursuant to this Agreement, the Partnership Agreement or the Memorandum shall not be deemed a breach of a fiduciary duty hereunder). The Manager will devote such time, effort and skill to the Company's business affairs as reasonably necessary and proper for the Company's welfare and success, as determined by the Manager, but shall not be prohibited from engaging in other business activities, including within the oil and gas industry. The Manager may, for its own account or as part of another entity, engage in business activities that may be deemed to be in competition with the Company.

(d) Notwithstanding the foregoing, the Manager will not have the authority to perform any of the following acts, except with the prior written consent of the Members owning a majority of the Membership Interests, or as authorized by this Agreement:

- (i) merge the Company with or into another entity;
- (ii) confess a judgment against the Company in any amount;
- (iii) make any loan or advance any sum of money to any party for any reason, or guarantee the indebtedness of any other party;
- (iv) set or change the compensation paid to the Manager;
- (v) modify the lines of business in which the Company is engaged, or terminate or expand the existing lines of business; or

(vi) enter into any other material transaction outside the ordinary course of business.

(e) **Votes of the Partnership.** In the event the partners in the Partnership are to vote on any matter the Manager shall poll the Members on such issue by sending written notice to the Members of the matter to be voted on and providing a form on which each Member can indicate how such Member wants the Company to vote on that issue. The Manager shall cast a proportionate share of the Company's vote in such election to reflect the responses received from the Members and shall vote the proportionate share attributable to the Members who do not respond as the Manager, in its discretion, shall determine. Except for situations in which this Agreement expressly requires the affirmative approval of a Member, any Member who fails to respond in writing within the time specified to a request by the Manager for approval of or concurrence in a proposed action shall be conclusively deemed to have voted for, approved and consented to the action. The time period for any approval shall be not less than fifteen (15) Business Days from the date of mailing of the request, the date of electronic delivery of the request or the date of the delivery of the request to a nationally recognized overnight delivery service.

(f) In the event any Member(s) wish to call a meeting of the Partnership, to call for a vote of the Partnership, or to propose an amendment to the Partnership Agreement, in each case, as provided by the terms of the Partnership Agreement, the Manager shall take the necessary actions to apply the proportionate share of the Company's Units in the Partnership attributable to such Member(s) in favor of such action.

16. Liability for Certain Acts. The Manager shall not have any liability whatsoever to the Company or to any Member for any loss suffered by the Company or Members which arises out of any action or inaction of the Manager if the course of conduct did not constitute gross negligence or willful misconduct; *provided that*, the foregoing shall not relieve the Manager from liability for Claims and Expenses to the extent that it is determined in a final, binding and non-appealable determination of a court of competent jurisdiction to be attributable to the Manager's gross negligence or willful misconduct.

17. Indemnification. The Manager shall be indemnified by the Company against any Claims and Expenses incurred by reason of any action taken or omitted to be taken by the Manager in any way related to or arising out of this Agreement or any of the Company's operations, *provided that*:

- (a) the Manager was acting on behalf of, or performing services for, the Company or its investments; and
- (b) the Manager shall not be entitled to indemnification to the extent it shall have been determined in a final, binding, and non-appealable determination of a court of competent jurisdiction that the Claims and Expenses are attributable to the Manager's gross negligence or willful misconduct.

Payments arising from such indemnification or agreement to hold harmless are recoverable out of the tangible net assets of the Company, revenues from operations and any insurance proceeds.

18. Resignation. The Manager may resign at any time that is more than five years after the later of the (a) close of the Partnership's offering and (b) date the Partnership's primary acquisition and drilling activities commenced, by giving one hundred and twenty (120) days' advance written notice to the Members. The resignation of the Manager will take effect one hundred and twenty-five (125) days following the mailing of such notice to the Members or at any later time specified in such notice. Unless otherwise specified in such notice, the acceptance of the resignation will not be necessary to make it effective. The resignation of a Manager who is also a Member will not affect the Manager's rights as a Member and will not constitute a withdrawal of a Member.

19. Election of New Manager Following Resignation. Upon the Manager's resignation, a new Manager will be elected by written consent of the Members owning a majority of the Membership Interest.

20. Removal.

(a) Except as provided in subparagraph (b) hereof, the Manager may be removed, at any time, with or without cause, on sixty (60) days' advance written notice to the Manager by the written action of Members owning sixty-five percent (65%) or more of the Membership Interests. However, such removal shall not become effective until a substitute Manager has been selected by the affirmative written vote of Members owning sixty-five percent (65%) or more of the Membership Interests, and installed as such.

(b) The Manager may be removed on thirty (30) days' advance written notice to the outgoing Manager, by the affirmative vote of Members owning a majority of the Membership Interests if (i) the Manager files a petition or request for liquidation, reorganization, adjustment of debts, arrangement, adjudication as a bankrupt or similar relief under the bankruptcy, insolvency, or similar laws of the United States of America or any state or territory thereof; consents to the filing of a petition in any bankruptcy, liquidation, or insolvency proceeding; consents to the appointment of a receiver, trustee, agent, or officer performing similar functions with respect to any substantial part of its assets; makes a general assignment for the benefit of its creditors; or institutes or consents to any other type of insolvency proceeding; or (ii) a receiver, custodian, trustee, or officer performing similar functions is appointed for the Manager; or a request or petition for liquidation, reorganization, arrangement, or adjudication as a bankrupt or other relief under the bankruptcy, insolvency or similar laws of the United States of America or any state or territory thereof is filed against the Manager; and such appointment is not vacated or such petition or proceeding is not dismissed within sixty (60) days after such appointment, filing or institution. If the Members vote to remove the Manager, then the Members must elect, by the majority vote of Members owning a majority of the Membership Interests, a successor Manager prior to the removal of the original Manager becoming effective.

21. No Management by Other Persons. Except and only to the extent delegated by the Manager in writing, no other person or entity other than the Manager will be an agent of the Company or have any right, power or authority to transact any business in the name of the Company or to act for or on behalf of or to bind the Company.

22. Foreign Qualification. The Company may qualify to transact business as a foreign limited liability company in any jurisdiction the Manager determines necessary or appropriate to carry out the business activities of the Company and shall deliver all certificates and other instruments that are necessary to qualify, continue or terminate the Company as a foreign limited liability company in all such jurisdictions in which the Company may conduct business activities.

23. Distribution Re-investment Program. Any Member may elect to take part in the Distribution Re-investment Program described in the Partnership Agreement. The Manager shall advise the Partnership of such election and shall hold any Units or fractional portions thereof acquired through the DRIP in the name of the Company. Upon the Company's receipt of a Unit or fractional part thereof as a result of a Member's election to participate in the DRIP, such Member's Capital Account and Membership Interest in the Company shall be increased as if the Unit or fractional part thereof was purchased for its stated value (i.e. \$100,000 per Unit).

24. Presentment. Any Member may require the Manager to exercise the presentment feature provided in Section 6.04 of the Partnership Agreement as to the Units attributable to such Member's Capital Contribution to the Company.

25. Access to Records. The Company adopts the same standards relating to access to Company information and records as are set forth in the Partnership Agreement. Specifically, the Members of the Company will not have access to, and will not be provided with a copy of, a list of the Members of, or participants in, the Company, or of the referenced partnership.

26. Dissolution. The Company will dissolve and its business will be wound up upon the first to occur of the following (a) the expiration of twenty five years from the date of the closing of the offering for Partnership, (b) the dissolution and winding up of Partnership, (c) the affirmative, written vote of Members owning sixty-five percent (65%) or more of the Membership Interests and (d) the entry of a decree of judicial dissolution under the Act.

27. Governing Law. This Agreement is governed by, and will be construed in accordance with, the laws of the State of Delaware, without regard to conflict of laws principles.

[Signature Page Follows]

IN WITNESS WHEREOF, the Members have executed this Agreement as of the day and year first above written.

MEMBERS:

BY: U.S. Energy Development Corporation, as *the agent and attorney-in-fact of each Member*



Name: Brandon Standifird

Title: Chief Financial Officer

MANAGER:

U.S. ENERGY DEVELOPMENT CORPORATION



Name: Brandon Standifird

Title: Chief Financial Officer

SCHEDULE A

MEMBER NAME AND ADDRESS

CAPITAL CONTRIBUTION