OFFERING MEMORANDUM NO.______

King Operating Partners III, LP

a KOPX Branded Project

October 29, 2024, and as amended December 3, 2024

500 Units ($200,000 each) totaling
$100,000,000 in Limited Partnership Units and Additional
General Partnership Units

No Minimum

Payment of $200,000 per Unit at Subscription

Participation in King Operating Partners III, LP Units involves a high degree of risk and is suitable only for investors who can afford to lose their entire investment or hold it for a long period of time. Participation in this program is only being offered to Accredited Investors, as defined in Rule 501 of Regulation D of the Securities Act of 1933. See "<u>Risk Factors</u>" and "<u>The Investor Suitability Standards</u>." The entire contents of this Memorandum should be carefully read.

Under SEC Rules you may be asked to provide documentation verifying your Accredited Investor status. Our Subscription Agreement contains a covenant to provide such information when requested. These provisions are required by SEC Rules which require taking reasonable steps to verify Accredited Investor status.

King Operating Partners III, LP (the "<u>Partnership</u>") is offering five hundred (500) Additional General Partner and Limited Partnership Units ("<u>Partnership Units</u>" or "<u>Units</u>") at $200,000 per Partnership Unit, for a total offering amount of $100,000,000.

The Partnership was formed to acquire oil and gas leaseholds and mineral interests and develop such by drilling, re-entering, testing, completing, re-completing, and equipping vertical, directional, and/ or horizontal wells located on such properties to produce oil and/ or gas and associated Hydrocarbons in commercial quantities. It focuses on the continental United States. The "Partnership Wells," as used in this Memorandum, means all oil and gas wells in which the Partnership owns an interest. The "Partnership

Properties," as used in this Memorandum, refers to all interests, properties, and rights of any type, including Partnership Wells, owned by the Partnership.

This Partnership investment program has the following characteristics:

- Partners will hold their well interests indirectly through the Partnership.

- The $200,000 per Partnership Unit price will be payable in one installment at subscription.

- The Partnership's business plan includes acquiring developmental oil and gas properties, developing such properties, and either engaging in commercial production of such properties or selling such properties after such properties have been developed and achieved stabilized production levels.

- Investors will have the opportunity to invest as "Limited Partners" or "Additional General Partners." Limited Partners will have their liabilities limited to the amount that they have contractually obligated to pay to the Partnership but will have their US intangible drilling and completion cost allocations treated as passive activity losses. Such losses may be used to offset passive income and Limited Partners will carryover unused passive losses to future years. Such carryforward of passive losses is commonly reported on Form 8582. Additional General Partners could be liable for the debts of the Partnership but may be able to claim deductions such as intangible drilling and completion costs, depreciation, depletion, operating expenses, and other applicable deductions against active income.

- The Partnership's Managing General Partner is KOP III GP LLC, a Texas limited liability company (the "Managing General Partner").

- The Partnership has a Management and Maintenance Agreement (attached as Exhibit C) with King Operating Corporation, a Texas Corporation ("King"). King may receive a fee of up to twenty percent (20%) "Contribution Margin" of the total costs of all drilling, completion, equipping, development and expenses and total cost of acquisition of the leasehold interest, operating properties (including production equipment) and other assets acquired by the Partnership.

- Assuming the $100,000,000 Maximum Subscription Amount, the Managing General Partner may receive a fee of up to $15,000,000, or fifteen percent (15%) of the Maximum Subscription Amount, for offering and marketing costs.

- The closing date for this offering is December 31, 2025, unless extended for up to six months at the discretion of the Managing General Partner.

King will operate the Partnership Properties in which it acquires the majority of the Working Interest. The Managing General Partner estimates that this will cover a substantial majority of the Partnership Properties. If the Partnership acquires a minority

Working Interest leasehold position, it is possible that it will not control the operator designation for such Partnership Property. Investors should understand that a well spud date may depend on circumstances outside an Operator's control, such as the availability of drilling rigs and other equipment, the timing of permits from the Texas Railroad Commission and other governmental entities, the weather, and government-ordered drilling moratoriums. Further, if King is not the Operator, the spud date for any such Partnership Well will be subject to that Operator's discretion and the Managing General Partner and its affiliates will not have control over any such decision. Manager will collaborate with Operators to facilitate the business cycle and development of the Partnership's assets.

This Offering will be sold by the Managing General Partner under the SEC Rule 506. This offering will not be registered with the U.S. Securities and Exchange Commission and the Partnership Units sold through this Memorandum carry no registration rights.

The minimum investment is one Unit, but that minimum may be waived in the discretion of the Managing General Partner.

IRA Funds and other Qualified Accounts

Tax-qualified accounts, such as IRAs, are not eligible to invest in this offering. Investments relating to tax-qualified accounts may be able to invest in a related offering and entity by purchasing common stock of a corporation which has elected to be taxed as a C corporation.

THIS INVESTMENT IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND DILUTION, AND SHOULD BE PURCHASED SOLELY BY THOSE PERSONS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") NOR ANY REGULATORY AUTHORITY OF ANY OTHER JURISDICTION HAS PASSED ON THE MERITS OF OR GIVEN ITS APPROVAL TO THE UNITS OFFERED OR THE TERMS EXEMPTION FROM REGISTRATION WITH THE SEC AND APPLICABLE SECURITIES REGULATORY AUTHORITIES OF OTHER JURISDICTIONS. NEITHER THE SEC NOR ANY REGULATORY AUTHORITY OF ANY OTHER JURISDICTION HAS MADE OF THIS OFFERING, NOR DOES IT PASS UPON THE ACCURACY HEREOF OR COMPLETENESS OF ANY OFFERING CIRCULAR OR OTHER SELLING LITERATURE. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THESE SECURITIES ARE OFFERED HEREBY PURSUANT TO AN AN INDEPENDENT DETERMINATION THAT THE SECURITIES OFFERED HEREUNDER ARE EXEMPT FROM REGISTRATION.

The date of this Offering Memorandum is October 29, 2024, and as amended December 3, 2024.

ADDITIONAL INFORMATION

DURING THE COURSE OF THIS OFFERING AND PRIOR TO SALE, EACH OFFEREE MAY ASK QUESTIONS OF, AND RECEIVE ANSWERS FROM THE MANAGING GENERAL PARTNER CONCERNING THE TERMS AND CONDITIONS OF THIS OFFERING, PROVIDED THE INFORMATION IS REASONABLY AVAILABLE. IN ADDITION, EACH OFFEREE WILL BE ENTITLED TO OBTAIN ADDITIONAL INFORMATION FROM THE MANAGING GENERAL PARTNER WHICH THEY BELIEVE TO BE MATERIAL TO A DECISION TO INVEST IN THE UNITS (INCLUDING ADDITIONAL INFORMATION TO VERIFY THE ACCURACY OF THE INFORMATION CONTAINED IN THIS MEMORANDUM) TO THE EXTENT THE MANAGING GENERAL PARTNER POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE. SUCH ADDITIONAL INFORMATION AND ALL DOCUMENTS RELATING TO THIS INVESTMENT WILL BE MADE AVAILABLE TO THE OFFEREE UPON REQUEST TO THE MANAGING GENERAL PARTNER, KOP III GP LLC, 15301 DALLAS PARKWAY, SUITE 900, ADDISON, TEXAS 75001, (214) 420-3000.

The Managing General Partner reserves the right to extend, withdraw or modify this offering and return the amounts tendered prior to issuing the Units to Partners. This offering may be withdrawn at any time before the termination of this offering and is specifically made subject to the terms described in this Memorandum. The Managing General Partner specially reserves the right to reject any subscription tendered.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS MEMORANDUM OR ANY PRIOR OR SUBSEQUENT COMMUNICATIONS FROM THE PARTNERSHIP OR ITS AGENTS AS LEGAL OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT HIS OR HER OWN LEGAL AND TAX ADVISORS AS TO THE LEGAL, TAX AND BUSINESS RAMIFICATIONS RELATED TO AN INVESTMENT IN THE UNITS.

THIS MEMORANDUM CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE PARTNERSHIP AGREEMENT, BUT REFER TO THE PARTNERSHIP AGREEMENT, ACOPY OF WHICH IS ATTACHED AS EXHIBIT B, FOR COMPLETE INFORMATION CONCERNING THE PARTNERS' RIGHTS AND OBLIGATIONS. THIS MEMORANDUM INCLUDES SIGNIFICANT ASSUMPTIONS. NO WARRANTY OF SUCH ASSUMPTIONS IS EXPRESSED OR IMPLIED HEREBY. THE MANAGING GENERAL PARTNER WILL MAKE AVAILABLE ALL PARTNERSHIP DOCUMENTS RELATING TO THIS MEMORANDUM UPON REQUEST FROM A PROSPECTIVE INVESTOR.

NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY REPRESENTATIONS, OR FURNISH ANY INFORMATION, WITH RESPECT TO THE PARTNERSHIP OR THE UNITS, OTHER THAN THE REPRESENTATIONS AND INFORMATION STATED IN THIS MEMORANDUM, THE PARTNERSHIP DOCUMENTS OR OTHER DOCUMENTS, OR OTHER INFORMATION WHICH IS FURNISHED BY THE MANAGING GENERAL PARTNER UPON REQUEST. THE MANAGING GENERAL PARTNER WILL PROVIDE ADDITIONAL INFORMATION REQUESTED BY A PROSPECTIVE INVESTOR FOR EVALUATION PURPOSES IF THIS INFORMATION IS REASONABLY AVAILABLE. SUCH ADDITIONAL INFORMATION SHOULD ONLY BE RELIED UPON IF FURNISHED IN WRITTEN FORM AND SIGNED BY A PRINCIPAL OF THE MANAGING GENERAL PARTNER. NO CHANGE IN PARTNERSHIP AFFAIRS FROM THE DATE OF THIS MEMORANDUM SHALL BE IMPLIED OR ASSUMED MERELY BY THE DELIVERY OF THIS MEMORANDUM, OR THE SALE OF THE PARTNERSHIP UNITS.

THIS MEMORANDUM CONSTITUTES AN OFFER ONLY TO THE PERSON WHO HAS RECEIVED IT FROM THE PARTNERSHIP. DELIVERY OF THIS MEMORANDUM, OR ANY OTHER DOCUMENTS OR INFORMATION FURNISHED TO AN OFFEREE, TO ANYONE OTHER THAN THE PERSON WHO HAS RECEIVED IT FROM THE PARTNERSHIP IS UNAUTHORIZED.

ANY OFFER TO PARTICIPATE IN THIS PARTNERSHIP SHALL ONLY BE MADE TO ACCREDITED INVESTORS—AS DEFINED BY SEC RULE 501(a) UNDER THE SECURITIES ACT OF 1933, AS AMENDED—BY THE MANAGING GENERAL PARTNER, WITHOUT ENGAGING IN ANY ADVERTISEMENT, ARTICLE, NOTICE, OR OTHER COMMUNICATION PUBLISHED IN ANY NEWSPAPER, MAGAZINE, OR SIMILAR MEDIA, OR BROADCAST OVER TELEVISION, RADIO, OR THE INTERNET, OR THROUGH A SEMINAR OR MEETING WHOSE ATTENDEES HAVE BEEN INVITED BY A GENERAL SOLICITATION OR GENERAL ADVERTISING.

THE PURPOSE OF THIS MEMORANDUM IS TO PROVIDE THE PROSPECTIVE INVESTOR WITH THAT INFORMATION WHICH THE MANAGING GENERAL PARTNER, ON BEHALF OF THE PARTNERSHIP, BELIEVES IS PERTINENT TO AN INFORMED INVESTMENT DECISION. THE MANAGING GENERAL PARTNER RECOGNIZES THAT ADDITIONAL INFORMATION MAY BE NEEDED BY THE PROSPECTIVE INVESTOR TO FORM AN INVESTMENT DECISION. THEREFORE, EACH PERSON CONSIDERING THIS OFFER IS ENCOURAGED TO ASK FOR MORE INFORMATION FROM THE MANAGING GENERAL PARTNER. REQUESTS FOR FURTHER INFORMATION SHOULD BE MADE TO THE MANAGING GENERAL PARTNER, AND SUCH INFORMATION SHOULD ONLY BERELIED UPON WHEN FURNISHED IN WRITTEN FORM AND SIGNED BY A DULY AUTHORIZED REPRESENTATIVE OF THE MANAGING GENERAL PARTNER.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY STATE OR JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED.

BECAUSE THE UNITS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER ANY STATE OR FEDERAL SECURITIES LAWS OR THE LAWS OF ANY NATION, THERE WILL BE NO PUBLIC MARKET FOR THEM. ACCORDINGLY, TRANSFERABILITY OF THE UNITS IS RESTRICTED AND INVESTORS MAY NOT BE ABLE TO LIQUIDATE THEIR INVESTMENT QUICKLY OR ON ACCEPTABLE TERMS, IF AT ALL. AN INVESTOR MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE UNITS SHOULD BE PURCHASED ONLY AS A LONG-TERM INVESTMENT. SEE "RISK FACTORS."

THE TAX PORTIONS OF THIS MEMORANDUM ARE NOT, AND SHOULD NOT BE CONSTRUED TO BE, TAX ADVICE TO ANY PERSON OR ENTITY INVESTING IN OR CONSIDERING INVESTING IN THIS OFFERING. EACH INVESTOR AND POTENTIAL INVESTOR SHOULD RELY EXCLUSIVELY ON SUCH INVESTOR'S TAX AND FINANCIAL PROFESSIONAL ADVISORS FOR THE RENDITION OF TAX ADVICE IN CONNECTION WITH THIS OFFERING.

GENERAL LEGEND

THESE UNITS OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE LAWS OF THE UNITED STATES OR ANY OTHER NATION, OR ANY POLITICAL UNIT OF THOSE NATIONS AND ARE BEING SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND SUCH LAWS. THE UNITS ARE SUBJECT TO RESTRICTION ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE UNITS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE OR PROVINCIAL SECURITIES ADMINISTRATOR, OR ANY OTHER SECURITIES ADMINISTRATOR OR REGULATORY AUTHORITY, NOR HAS ANY OF THESE REGULATORY AUTHORITIES PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

CANADIAN LEGEND

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (I) OCTOBER 29, 2024, AND (II) THE DATE THE ISSUER BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.

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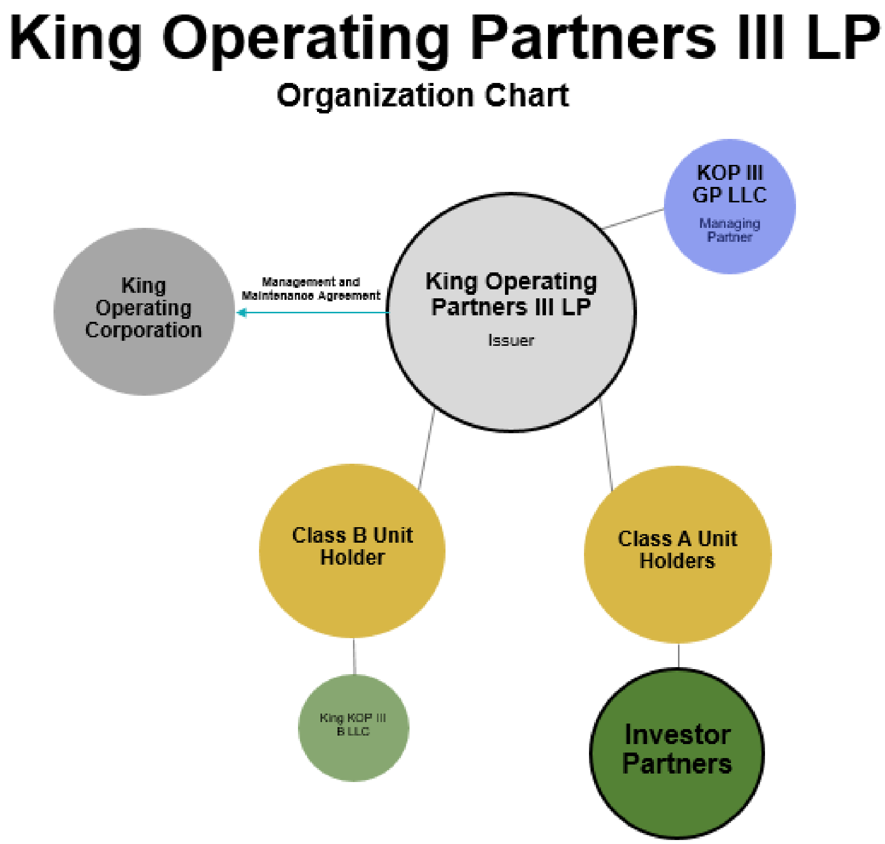
Separate Subscription Booklet – Subscription Documents

SUMMARY OF THE OFFERING

The following summary only highlights certain portions of the information contained in this Offering Memorandum ("Memorandum"). This summary is qualified in its entirety by reference to the full text of this Memorandum and its exhibits, all of which should be read and understood by prospective investors.



Partnership:	King Operating Partners III, LP, a Texas limited partnership.
Managing General Partner:	KOP III GP LLC, a Texas limited liability company (the "Managing General Partner"), whose address is 15301 Dallas Parkway, Suite 900, Addison, Texas 75001, (214) 420-3000.
Unit Price Payment Schedule:	The $200,000 per Unit price will be payable at subscription.
Compensation:	The Partnership has a Management and Maintenance Agreement (attached as Exhibit B) with King Operating

Corporation, a Texas Corporation ("Manager"). King may receive a fee of up to twenty percent (20%) of the total costs of all drilling, completion, stimulation, and equipping wells and of the total cost of acquisition of the leasehold interest, operating properties (including production equipment) and other assets acquired by the Partnership (the "Contribution Margin").

Assuming the $100,000,000 Maximum Subscription Amount, the Managing General Partner will receive a fee of up to $15,000,000, or fifteen percent (15%) of the Maximum Subscription Amount, for offering and marketing costs.

Partners: The Managing General Partner together with those persons whose Subscriptions to purchase Additional General Partnership Units and Limited Partnership Units offered hereby are accepted by the Managing General Partner of $100,000,000 (500 Units) (the "Maximum Subscription Amount") and who are subsequently admitted to the Partnership. The initial deposit amounts for these Subscriptions shall be $200,000 per Partnership Unit to be paid at the time of Subscription.

Distribution Waterfall for Investor Partners during Operational Phase	Net Operating Cash Flow, as determined by the Managing General Partner, shall be apportioned among the Class A Unit Holders in proportion to their pro-rata percentage of Class A Units owned. This amount shall be further apportioned and distributed between the Class A Unit Holders and the Class B Unit Holder as follows: 1) 80% to each Class A Unit Holder until such Class A Unit Holder has received cumulative distributions equal to such Class A Unit Holder's total Subscribed Funds and 20% to the Class B Unit Holder, pro-rata; and 2) 60% to each Class A Unit Holder after each such Class A Unit Holder has received cumulative distributions of such Partner's total Subscribed Funds and 40% to the Class B Unit Holder, pro-rata.
Distribution Waterfall for Investor Partners from Capital Transactions	Net Operating Cash Flow from a Capital Transaction, as determined by the Managing General Partner in its sole discretion, shall be apportioned among the Class A Unit Holders in proportion to their pro-rata percentage of Class A Units owned. This amount shall be further apportioned and distributed between the Class A Unit Holders and the Class B Unit Holder as follows: 1) 100% to each Class A Unit Holder until each such Class A Unit Holder has received cumulative distributions equal to such Class A Unit Holder's total Subscribed Funds; and 2) 60% to each Class A Unit Holder after each such Class A Unit Holder has received cumulative distributions of such Partner's total Subscribed Funds and 40% to the Class B Unit Holder, pro-rata.
Offering Period:	The offering period for the Units will terminate on December 31, 2025 (the "<u>Offering Period</u>"), unless extended by the Managing General Partner, in its sole discretion.
Terms of Subscription:	The Subscription Price for each Unit is $200,000 per Unit paid at the time of Subscription.
Subscription Documents:	Each subscriber must return to the Managing General Partner a complete and executed set of Subscription Documents, in the form attached as <u>Exhibit E,</u> with payment of the initial deposit amount of $200,000 per Unit

subscribed.

Partnership Objective:	The primary investment objective of the Partnership is to develop oil and gas prospects, produce oil and gas in commercial quantities, and sell stabilized producing properties (the Assets of the Partnership) in good market conditions.
Plan of Operation:	The Partnership intends to acquire oil and gas leaseholds and mineral interests and develop such leasehold and mineral interests by drilling, re-entering, testing, completing, re-completing, and equipping vertical, directional, and/ or horizontal wells located on such properties to produce oil and/ or gas and associated Hydrocarbons in commercial quantities. It focuses on the continental United States.
Operator:	The Managing General Partner’s affiliate, King Operating Corporation (Texas Railroad Commission no. 465296), will operate the Partnership’s leasehold interests when the Partnership or its affiliates control a majority of the relevant leasehold Working Interest in a prospect. If the Managing General Partner and its affiliates do know own the majority of the Working Interest in a prospect, the majority interest will likely have the authority to designate the Operator.
Term of the Partnership:	The Partnership was formed as a limited partnership under the laws of Texas on October 5, 2022, and will continue until the occurrence of any event causing winding-up as set out in the Partnership Agreement.
Proceeds:	The initial subscription payment amount of $200,000 per Unit will be paid to the Partnership account at King Operating Partners III, LP, 15301 Dallas Parkway, Suite 900, Addison, Texas 75001.
Capitalization:	Funding of the Offering will occur with the issuance of five hundred (500) Class A Units (Investor Partner Units) in the amount of $200,000 per Unit. The Managing General Partner will provide managerial services for the acquisition of Leasehold Assets and Oil and Gas Mineral Interests and the development of such assets by drilling commercial wells and developing infrastructure for production operations

Voting	The Managing General Partner shall have all voting rights unless it becomes subject to an “Event of Withdrawal” defined under the Partnership Agreement.
Risk Factors:	There are high risks associated with the purchase of a Unit in the Partnership.
Limited Partners and Additional General Partners:	Prospective investors may invest in the Partnership as Limited Partners or Additional General Partners. On January 1st of the year immediately following the calendar year of the Additional General Partners Units may be converted to Limited Partner Units, unless the Managing General Partner determines that such conversion at that time would not be in the best interests of the General Partners or the Partnership.
Other Documents:	The Managing General Partner will, upon request, furnish copies of other documents which are important to an understanding of the nature of, or an investment in, the Partnership.

BUSINESS

The Issuer

The Issuer is a Texas limited partnership with its offices at 15301 Dallas Parkway, Suite 900, Addison, Texas 75001, and is a non-operating oil and gas company that owns the Partnership Properties set forth herein. The Issuer anticipates drilling, testing, completion, and equipping wells located on the Partnership Properties in an effort to produce oil and/ or gas in commercial quantities and potentially acquiring wells or interests in wells already in operation.

KOP III GP LLC, a Texas limited liability company, is the Managing General Partner of the Issuer (referred to herein as the "Managing General Partner"). The Managing

General Partner is an Affiliate of King Operating Corporation, a Texas corporation (the "Manager"). The Managing General Partner is headquartered at 15301 Dallas Parkway, Suite 900, Addison, Texas 75001. King's offices are also located at 15301 Dallas Parkway, Suite 900, Addison, Texas 75001.

Operator

King will operate the Wells in which the Partnership, King and its affiliates control the majority of the Working Interest. For each proposed implementation plan of property acquisition, well optimization, well recompletions, and new Wells that are drilled, side-tracked, deepened, or re-worked (excluding routine well management and maintenance, each an "Operation"), King will report to the Partnership the cost of acquiring Leasehold Assets (oil and gas mineral interests) and the cost of developing the Partnership's assets by acquiring existing commercial wells or drilling proposed wells. Pursuant to the Management and Maintenance Agreement, King may charge the Issuer a Contribution Margin of up to 20% costs relating to each Well Operation and acquisition of Leasehold Assets (oil and gas mineral interests). The amount that King may receive for each Operation will vary from Operation to Operation depending on the actual costs. See "Management and Maintenance Agreement."

If, in the future, the Issuer enters into an agreement whereby a third party agrees to contribute capital and co-develop the Partnership Properties, the Issuer may decide to jointly drill any Wells with such third party pursuant to an agreement entered into with such third party. The Issuer and such third party would select an entity to be the Operator, which may or may not be King or the Issuer. In the event this occurs, then that Operator will be solely responsible for overseeing the conduct of operations. In making decisions about such operations, the Operator will or may be subject to conflicts between its interests and the interests of the Issuer and the third party. The Issuer's Working Interest in the Partnership Properties would most likely be subject to a joint operating agreement under which the specific Operator will operate the wells for base compensation per month (which amount may be increased annually pursuant to the terms of the operating agreement), plus reimbursement of all direct costs.

Our Competitive Strengths

Operational Control

Through the Management and Maintenance Agreement, the Partnership will engage King Operating Corporation ("King") as Manager to retain operating control over the Partnership Properties. Operational control allows King to efficiently manage the Operating Costs, capital expenditures and the timing and method of development of the Partnership Properties. King believes a disciplined capital spending program coupled with the quality of the Partnership Properties will result in optimized risk-adjusted cash flows. King's operational control will provide King with the flexibility to align capital expenditures with cash flows as King is able to adjust drilling plans with changes in commodity prices. They may acquire non-operating oil and gas property which may result in a lower level of control in making decisions about such property.

Management and Operations Team

King will control the Partnership's business through the Management and Maintenance Agreement. King has assembled a diversified and seasoned management and professional team with many years of experience in the oil and gas industry. Additionally, the management, technical, land, and accounting teams, have developed spheres of influence and relationships beneficial to the daily operations of managing the Partnership's assets through their experience. See the section of this Memorandum entitled "Management" for a more detailed description of King's management team and their experience.

Marketing and Customers

King will identify potential purchasers of oil and gas production. King anticipates being able to obtain market rates prevailing in the area for both the purchase of its hydrocarbons and the gathering and transportation of such hydrocarbons to such purchasers. King does not anticipate producing commercial quantities sufficient to impact oil and gas pricing, which is normally developed by market forces and available market areas.

Competition

The oil and natural gas industry is highly competitive, and the Issuer will compete with a substantial number of other companies that may have greater resources. Many of these companies explore for, produce and market oil and natural gas, carry on refining operations and market the resultant products on a worldwide basis. The primary areas in which the Issuer encounters substantial competition are in drilling and development operations and the marketing and transportation of the oil and natural gas that the Issuer produces. There is also competition between producers of oil and natural gas and other industries producing alternative energy and fuel. Furthermore, competitive conditions may be substantially affected by various forms of energy legislation and/ or regulation considered from time to time by the U.S. government; however, it is not possible to predict the nature of any such legislation or regulation that may ultimately be adopted or its effects upon our future operations. Such laws and regulations may, however, substantially increase the costs of exploring for, developing, or producing oil and natural gas and may prevent or delay the commencement or continuation of a given operation. The effect of these risks cannot be accurately predicted. A competitive advantage for the Partnership's business model is the ability to select and evaluate smaller or possible unique projects to become Partnership leasehold assets.

Employees and Contractors

Initially, the Partnership will have no employees and all services for the management of the Partnership will be performed by King in accordance with the terms of the Management and Maintenance Agreement.

Title to Properties

As is customary in the oil and natural gas industry, King or the other Operators will initially conduct a preliminary due diligence review of the title to the Partnership Properties, as needed. Prior to commencing drilling operations on those properties, the Operators will conduct an industry standard title examination and perform appropriate curative work with respect to significant title defects after a cost-benefit review. Operators generally will not commence drilling operations on a property until they have cured any material title defects on such property. The Partnership Properties are subject to customary royalty and other interests, liens for current taxes and other burdens which King does not believe will materially interfere with the use or affect the value of the Partnership Properties.

Seasonality

In the past, the demand for and price of natural gas increased during the winter months and decreased during the summer months.[1] However, these seasonal fluctuations were somewhat reduced because during the summer, pipeline companies, utilities, local distribution companies and industrial users purchase and place into storage facilities a portion of their anticipated winter requirements of natural gas. With the development of prolific natural gas shale plays, seasonality is less a factor.[2] Oil was also impacted by generally higher prices during winter months but has more recently been affected by geopolitical events. Also, periodic seasonal storms often impede King's ability to safely load, unload and transport personnel and equipment, which delays the installation of production facilities, thereby delaying sales of the Partnership's oil and natural gas. Finally, in 2020 the oil and gas producing areas of Texas and Oklahoma experienced a 100-year freeze which shut down production, damaged equipment, distorted production, and caused producers to make expensive repairs to restart production. Any repeat of such a freeze would again result in cost increases and delayed and reduced production, which would have a negative impact on the Partnership's financial performance.

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[1] *See* U.S. Energy Information Administration, Short-Term Energy Outlook, *Natural gas*, at https://www.eia.gov/outlooks/steo/report/natgas.php.

[2] *See* U.S. Energy Information Administration, Today in Energy, *High natural gas production and storage injections in September drove U.S. prices down*, November 2, 2022, at https://www.eia.gov/todayinenergy/detail.php?id=54499.

Legal Claims

The Partnership or King is not currently involved in material claims, lawsuits, and governmental proceedings arising in the ordinary course of business.

Anticipated Returns

The Partnership intends to develop its oil and gas properties, and complete and equip its wells. Unlike producing properties, developmental properties will not generate production revenue and Partnership revenue from day one after acquisition. Partnership funds will be used to complete due diligence on the properties, acquire the properties, and drill, complete, and equip the Partnership wells, all of which are components of the Partnership's business and operating cycle. Obtaining sufficient capital contributions from Partners could possibly inhibit the Partnership's ability to properly prepay these obligations as required by the Management and Maintenance Agreement. Variables that may affect the start of revenue payments from specific wells also include obtaining sufficient funding and regulatory permits, driller and rig availability, hydraulic fracturing service provider availability, and market conditions. Finally, most commercial wells may have a ninety (90) day lag time between when oil or gas is sold from the well location to when the Partnership receives payment from the first purchaser.

Compensation and Payments to Limited Partners, Additional General Partner, Managing General Partner Affiliates, and Consultants

The amounts shown below to be paid from subscriptions may have no bearing or relationship to actual costs which may be incurred for certain of the items set forth below. Rather, the amounts being charged the Partnership by the Managing General Partner reflects those costs which the Managing General Partner has determined, in its sole discretion, to constitute appropriate charges, on a non-accountable basis, for the Managing General Partner's expenditure of funds to organize the Partnership and as compensation for the assets being assigned to the Partnership. To the extent such amounts shown are in excess of actual amounts paid by the Managing General Partner, such excess will be considered as compensation to the Managing General Partner.

The following tables are provided to help prospective investors to understand the types and amount of compensation and reimbursements which the Managing General Partner, its Affiliates, and business development intermediaries will receive from the Partnership. All projected use of Proceeds allocations are estimates which may vary depending on operational conditions.

Compensation Paid Assuming Maximum Subscription Amount and Completion of All Partnership Wells

Entity Receiving Compensation	Type of Compensation or Distribution	Amount
King Operating Corporation	The Partnership has a Management and Maintenance Agreement (attached as Exhibit C) with King Operating Corporation, a Texas Corporation ("King"). King will receive a fee of up to twenty percent (20%) of the total costs of all drilling and completion expenses and of the total cost of acquisition of the leasehold interest, operating properties (including production equipment) and other assets acquired by the Partnership (the "Contribution Margin").	Indeterminate
Managing General Partner	Assuming the $100,000,000 Maximum Subscription Amount, the Managing General Partner will receive a fee of up to $15,000,000 or fifteen percent (15%) of the Maximum Subscription Amount, for offering and marketing costs.	Indeterminate

All figures used are estimates and are subject to adjustment.

INVESTOR SUITABILITY

Subscribers to this offering of King Operating Partners III, LP Units must be "Accredited Investors" under SEC Rule 501. Subscribers must be sophisticated, can assess the investment opportunity, have no need for any periodic payments or liquidity from this investment, and, with their spouse, qualify as an "Accredited Investor" under SEC Rule 501. Corporate and other business entities may also subscribe provided they meet the above-described suitability requirements.

Investment in the Partnership Units involves a high degree of risk and is suitable only for persons of financial means who can bear this risk and who have no need for liquidity in this investment. The Offering has not been registered or qualified with, nor has the adequacy or accuracy of this Memorandum been reviewed and passed upon by the U.S. Securities and Exchange Commission or any state or provincial securities administrator. The Offering is being made in reliance on exemptions from registration and qualification requirements. The availability of these exemptions is dependent upon, among other things, the investment intent and qualification of each prospective purchaser.

Representations from prospective purchasers will be reviewed to determine their suitability for investment, and Managing General Partner, in its sole discretion, will have the right to refuse a subscription for any reason. Before Subscribers can purchase a Unit, the Subscriber must represent in writing that (among other things):

A. The Subscriber is acquiring its Unit(s) for investment and not with a view to resale or distribution;

B. The Subscriber can bear the economic risk of losing its entire investment;

C. The Subscriber's overall commitment to investments which are not readily marketable is not disproportionate to its net worth and its investment in King Operating Partners III, LP will not cause this overall commitment to become excessive;

D. The Subscriber has adequate means of providing for its current needs and personal contingencies and no need for liquidity in its investment in King Operating Partners III, LP; and

E. The Subscriber understands that King Operating Partners III, LP can make further capital assessments, and the Subscriber has the means to pay such assessments.

GLOSSARY

The following are the definitions of certain terms used in this Memorandum.

"<u>Additional General Partner</u>" means the holder of one or more Class A Partnership Units or fraction thereof who has been admitted to the Partnership as an Additional General Partner by the Managing General Partner and is a party to the Partnership's Limited Partnership Agreement.

"<u>Affiliate</u>" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified. For purposes of this definition, a Person shall be deemed to "control" or be "controlled by" a Person if such Person possesses, directly or indirectly, power to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

"<u>API</u>" means the American Petroleum Institute.

"<u>BBO</u>" means one (1) billion barrels of crude oil.

"<u>BBL</u>" means one (1) billion barrels of petroleum liquids, including crude oil, condensate, and natural gas liquids.

"BCF" means one (1) billion cubic feet.

"BOPD" means one (1) barrel of crude oil per day.

"BWPD" means one (1) barrel of water per day.

"Capital Contribution" means the total amount of cash contributed to the capital of the Partnership by a Unit Holder (or the predecessor holders of the interests of such Unit Holder), notwithstanding the number of Units issued or the price paid with respect of a Unit.

"Carried Working Interest" means the Working Interest paid, or carried, for drilling and completion costs relating to the initial drilling and completion operations in a well by one or more other working interest owners.

"Class A Unit Holder" means each owner of Class A Units in the Partnership.

"Class B Unit Holder" means each owner of Class B Units in the Partnership, specifically King KOP III B LLC.

"First Purchaser" means the party who signs an agreement to purchase hydrocarbons from an oil and gas operator. The agreement to purchase hydrocarbons are typically agreed upon for a specific series of "Production Months".

"Fiscal Year" means the fiscal year defined by the Partnership Agreement. Initially the fiscal year will end on December 31, but this can be changed at the discretion of the Managing General Partner.

"General and Administrative Costs" means, in respect to any period, all reasonable and customary legal, accounting, geophysical, geological, land, engineering, travel, rent, telephone, and similar costs necessary or appropriate to the conduct of the business of the Partnership, including the Managing General Partner's management fee.

"General Partner" means a holder of a Unit of partnership interest in the Partnership who has been admitted as a general partner.

"Governmental Authority" means (a) the government of the United States of America or any state or other political subdivision thereof, (b) any government or political subdivision of any other jurisdiction in which the Issuer or any of its subsidiaries conducts business, or which properly asserts jurisdiction over any facilities owned by the Issuer, (c) any entity properly exercising executive, legislative, judicial, regulatory or administrative functions of any such government or (d) any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

"Hydrocarbons" means oil, gas, casinghead gas, drip gasoline, natural gasoline, condensate, distillate, liquid hydrocarbons ("NGLs"), gaseous hydrocarbons, and all products refined or separated therefrom. Hydrocarbons, as used herein, specifically excludes any "hard" minerals, such as coal.

I"nitial Capital Contribution" means the $200,000 per Unit Initial Capital Contribution called for in this Memorandum.

"Interest" means the all the rights and ownership held by the Issuer's Owners of the Issuer.

"IRS" means the Internal Revenue Service.

"Issuer" means King Operating Partners III, LP, a Texas partnership.

"King" means King Operating Corporation, a Texas corporation.

"KOPI" means King Operating Partners III, LP, a Texas partnership.

"Leases" means oil and gas leases granting the lessee the right to a Working Interest.

"Limited Partner" means the holder of one or more Class A Partnership Units or fraction thereof who has been admitted to the Partnership as a Limited Partner by the Managing General Partner and is a party to the Partnership's Limited Partnership Agreement. This definition includes a former Additional General Partner who has been converted to a Limited Partner pursuant to the terms of the Partnership Agreement.

"Management and Maintenance Agreement" means that certain Management and Maintenance Agreement, dated effective as of October 29, 2024, as amended, by and among King and the Partnership, attached to this Memorandum as Exhibit C.

"Managing General Partner" means KOP III GP LLC, a Texas limited liability company, whose address is 15301 Dallas Parkway, Suite 900, Addison, Texas 75001, (214) 420-3000.

"Measured Depth" or "MD" means measured depth, being the length of the wellbore, as if determined by a measuring stick. This measurement differs from the true vertical depth of the well in all but vertical wells. Since the wellbore cannot be physically measured from end to end, the lengths of individual joints of drill pipe, drill collars and other drillstring elements are measured with a steel tape measure and added together. Importantly, the pipe is measured while in the derrick or laying on a pipe rack, in an untensioned, unstressed state. When the pipe is screwed together and put into the wellbore, it stretches under its own weight and that of the bottomhole assembly. Although this fact is well established, it is not taken into account when reporting the well depth. Hence, in virtually all cases, the actual wellbore is slightly deeper than the reported depth.

“MCF” means a common description for a thousand cubic feet of natural gas.

“MMCF” means the common description for a million cubic feet of natural gas.

“Memorandum” means this Offering Memorandum dated October 29, 2024, pursuant to which the Units are offered for sale.

“Mineral Interest” means any interest in any minerals or mineral estates (including revisionary interests).

“MBO” means one (1) thousand barrels of crude oil.

“MMBO” means one (1) million barrels of crude oil.

“MMCF” means one (1) million cubic feet.

“Net Operating Cash Flow” means Gross Hydrocarbon Revenue paid by First Purchasers less royalties or overriding royalties, less lease operating expenses, less any contingent reserves as solely determined by Manager equals “Net Operating Cash Flow”.

“Net Revenues” means, in respect to any period, the portion of Proceeds more than the Operating Costs and the General and Administrative Costs incurred by the Partnership during such period.

“Net Revenue Interest” means an interest in an oil and gas property which entitles the owner to a specific portion of the production income from such property.

"Offering Period” means the period commencing on the date of this Memorandum and ending on December 31, 2025, unless extended by the Managing General Partner.

“Operating Agreement” means an oil and gas joint operating agreement entered into by the Partnership.

“Operator” means the operator of record with the respective state or federal governing authority having jurisdiction.

“Operating Costs” means, in respect to any period, all cash costs, and expenses of the Partnership in any period, including, without limitation, all costs incurred in connection with the operation and maintenance of the Partnership and the Partnership Wells.

"<u>Overriding Royalty Interest</u>" means an undivided interest in an oil and gas lease carved out of the working interest that gives the holder the right to receive a proportional share (revenue) of the sale of oil and gas produced. Lease operating, drilling, completion, and recompletion expenses are not charged against Overriding Royalty Interest.

"<u>Partners</u>" means the persons, firms, corporations, and other entities that are admitted into the Partnership as Limited Partners or Additional General Partners in the Partnership plus the Managing General Partner. Reference to a "<u>Partner</u>" means any one of the Partners and the Managing General Partner if the context so requires. No owner of any assigned interest in the Partnership shall be deemed to be a Partner unless and until the assignee has been admitted to the Partnership as a Substitute Partner in accordance with the terms of the Partnership Agreement.

"<u>Partnership</u>" means King Operating Partners III, LP, a Texas limited partnership.

"<u>Partnership Agreement</u>" means the Agreement of Limited Partnership in the form attached to this Memorandum as <u>Exhibit B</u>, pursuant to which the Partnership will be continued after the admission of Additional General Partners and Limited Partners into the Partnership.

"<u>Partnership Interest</u>" means an equity owner's (a) share of the Partnership's assets, Profits, Losses and distributions pursuant to the Partnership Agreement and the Texas Business Organizations Code; (b) share in allocations of income, gain, loss, deduction, credit or similar items; (c) Capital Account (as defined in the Partnership Agreement); and (d) in the case of Partnership Interests owned by Partners, the right to participate in the management or affairs of the Partnership as provided in the Partnership Agreement. A Partnership Interest is expressed in Units.

"<u>Partnership Properties</u>" means all interests, properties and rights of any type owned by the Partnership, including the Partnership Wells.

<u>"Partnership Wells</u>" means any oil and gas wells, SWDs, injection wells and other wells and wellbores in which the Partnership owns an interest.

"<u>Person</u>" means any individual, firm, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization, Governmental Authority, or any other entity.

<u>"Proceeds</u>" means in respect to any period, the aggregate gross cash receipts received by the Partnership from all sources during such period.

"Production Month" means a month beginning as the first day of the month for which hydrocarbons are normally either purchased or sold.

"Profit" or "Loss" means, always during the existence of the Partnership, the profit or loss of the Partnership with respect to each fiscal year, determined in accordance with Section 704(b) of the Code and applicable Regulations, including, without limitation, each item of Partnership income, gain, loss, or deduction.

"Proved Reserves" means those reserves that comply with the U.S. Securities and Exchange Commission's definition of "Proved Reserves" found in SEC Regulation S-X § 210.4-10(a)(22) (17 CFR § 210.4-10(a)(22)).[3]

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[3] SEC Regulation S-X § 210.4-10(a)(22) defines "Proved Reserves" as follows: (22) *Proved oil and gas reserves.* Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contacts, if any, and

(B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

SEC Regulation S-X § 210.4-10(a)(24) *Reasonable certainty.* If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

"Return of Subscribed Capital (Partnership Capital Contributions)" means, with respect to a Class A Unit Holder, that point in time in which such Class A Unit Holder has received aggregate distributions equal to the sum of 100% of such Class A Unit Holder's Capital Contributions. The calculation of Return of Subscribed Capital (Partnership Capital Contributions) shall begin from the date such Class A Unit Holder's initial Capital Contribution funds are deposited in the Partnership's bank account.

"Subscription" means the execution and delivery to the Managing General Partner of a properly executed set of Subscription Documents by a potential Partner and the tender by such investor of the required cash payment for the Unit(s) which he, she or it wishes to purchase.

"Subscription Amount" means the total Initial Capital Contributions to be made to the Partnership by subscribers in this offering is up to $100,000,000, assuming Subscriptions for the maximum of 500 Units are accepted by the Managing General Partner prior to the expiration of the Offering Period.

"Substitute Partner" means the assignee of the Unit(s) of a Partner when both the assignor and assignee of such Unit(s) have satisfied all the requirements of the Partnership Agreement.

"SWD" means saltwater disposal well.

"Target Assets" means the acquisition, development, and divestiture of onshore underdeveloped, proven producing oil and gas properties situated within the continental United States.

"TCF" means one (1) trillion cubic feet.

"TDS" means total dissolved solids and refers to the amount of minerals and other substances that are dissolved in a certain volume of water.

"Third Party Participant" means any Person who elects to purchase or otherwise owns a Working Interest in oil and gas leases also partially owned by the Issuer or who has contributed such oil and gas leases to be jointly developed and drilled with the Issuer.

"True Vertical Depth" or "TVD" means the vertical distance from a point in the well (usually the current or final depth) to a point at the surface, usually the elevation of the rotary kelly bushing. TVD is important in determining bottomhole pressures, which are caused in part by the hydrostatic head of fluid in the wellbore.

"Unit" means a unit of Partnership Interest in a class designated by the Partnership.

"Unit Holder" means a Person holding a Unit of Partnership Interest, including each owner of Class A Units or Class B Units in the Partnership.

“Wellbore Assignment” means transfer of ownership or operatorship rights of a wellbore from one party to another. The assignment may be limited to the wellbore of a well or even designated formations and depts within the wellbore, meaning that the assignor is assigning only those rights to production from the wellbore of a certain well, potentially at designated depths or formations.

“Working Interest” means an ownership interest under an oil and gas lease, or otherwise, covering a specific tract or tracts of mineral estate, the owner of which has the right to explore for oil, gas, and other minerals on or under such land and has the obligation to pay the cost of exploration, drilling and operating the property or a part thereof.

PARTNERSHIP ASSET SELECTION CRITERIA

Partnership Business Model, Financial Objectives & Target Assets

The Partnership's current business model is to acquire, develop, and divest of onshore underdeveloped, proven producing oil and gas properties situated within the Continental United States ("Target Assets").

Acquisition Methodology

While the Partnership seeks to develop the Partnership Assets, the Partnership may acquire additional Target Assets.

Source. King's executive and technical teams constantly seek information on potential acquisitions of Target Assets. In addition to being proactive, King consistently receives information related to potential acquisitions through various channels such as oil and gas industry conferences and events, interactions and communications with oil and gas operators and vendors, suppliers, and consultants operating within King's existing areas of operations, and our personal networks of associates, contacts, and industry professionals.

Qualify & Prioritize. When evaluating potential acquisitions, the Partnership seeks to be basin agnostic and seeks diversification through geography, formations, commodity product mix, and play types. In general, the Partnership will likely evaluate and prioritize a potential acquisition based upon all or a mix of the following criteria:

Geography, Geology & Engineering

- *Data Availability*. Potential acquisitions with limited production data or available comparable assets generally will not be considered, while availability of 3D seismic greatly increases the consideration of a potential acquisition candidate.
- *Infrastructure Availability*. In-place infrastructure and midstream contract visibility to ensure deliverability of production with limited risk to price and cost fluctuations.
- *Land and Title*. Historical or material title issues, onerous lease holding obligations, or surface rights issues will be appropriately considered and evaluated.
- *Regulatory & Environmental Risk*. Risk to future development and to existing production.

Economics & People

- *Economic Life & Age of Production*. Low decline assets that have already reached terminal decline have to be able to maintain economic production to be considered for acquisition. Proven economic potential, including significant Estimated Ultimate Recovery (EURs) of analogous productive wells, including favorable daily production flow rates.
- *Commodity Product Mix*. A product balance between oil and natural gas and natural gas liquids (NGLs).
- *Upside*. Availability of undeveloped locations or other realizable upside, including scalability and economies of scale which enhance divestiture opportunities.

- *Provider Availability*. Access to ample service providers which, due to competition, will ideally yield low service rates and reasonable material costs.
- *Plugging & Abandonment*. The timing and size of actual or potential P&A liability.
- *Portfolio Fit*. Diversification through geography, formations, commodity product mix, and play types.
- *Asset Consultants*. Whether the people, management, and/or service providers are available to provide technical assistance and recommendations post-acquisition.

Negotiate & Close. Once a Target Asset is selected for acquisition, negotiations with the owner or owner's representative are initiated. Once the general terms are negotiated, a letter of intent outlining such terms is executed by the parties. Depending upon the transaction, a binding purchase and sale agreement will then be executed. After a due diligence period, the Partnership will determine whether it wishes to proceed to closing pursuant to the letter of intent or purchase and sale agreement.

Development Methodology

Asset Strategy. The Partnership will normally prioritize available drilling locations in applying the asset selection criteria above. In order to deploy capital to drill new wells, the Partnership must have available drilling locations.

Location Planning. Location planning normally involves, among other tasks and planning, a review of available geological information (including 3D seismic) to assist in selecting well placement and target zones, a review of title, surface, and regulatory matters, vendor negotiation and selection, and coordinating/scheduling.

Drilling and Completion

Drilling New Wells

Drilling new vertical wells will be key to unlocking the hydrocarbon potential on the significant acreage in the Partnership Assets, which has many locations with multiple producing formations. One of the advantages of multiple producing formations is that when the primary producing formation is depleted, a recompletion to an up-hole zone can be performed, and cash flow can continue from the existing producing formation. The Partnership's general expectation for new drill vertical wells is that they will payout in 12-36 months. New drills require the most time and manpower from start to finish and have the highest cost but have the potential for the largest increases in production volumes and, therefore, the highest cash flows. New drill wells are also necessary to maximize hydrocarbon recovery from the Partnership Assets.

New drill wells will require a drilling rig to drill the hole, set pipe, and cement the pipe in place. Perforations will normally have to be added to the producing formation, and a stimulation will normally be beneficial to improve the hydrocarbon flow from the reservoir to the wellbore. Additionally, production equipment suitable for the type and volume of hydrocarbons will be necessary to produce the well.

Optimization & Recompletions of Producing Wells

The easiest and quickest opportunity for value creation is to optimize existing wells' production equipment and facilities if such wells are good candidates for this type of operation. Optimization will hopefully allow for the wells to produce higher rates of oil and gas and lower the operating cost per unit of hydrocarbon.

These types of projects are typically low cost (as opposed to drilling a new well) and should provide the fastest payouts (typically 1-6 months). Recompletions are opportunities to (sometimes dramatically) increase production without paying the full cost of drilling a new well. Any shut-in wells that the Partnership owns may be studied for up-hole recompletion opportunities, and if any actively producing wells are economically marginal, they may be considered as potential recompletion candidates whereby the well economics can be significantly improved.

Field Operations. See Management and Maintenance Agreement.

Project Financing

The Partnership may procure a reserve-based credit facility (commonly referred to as an "RBL") to fund additional development of the Partnership Assets. Since the credit facility would be based on the projected recoverable reserves, as calculated by an independent engineering report, from the Partnership Assets, the debt will be non-recourse to the individual equity partners (Class A Unit Holders).

Availability of 3D Seismic In Drilling New Wells

The availability of three dimensional (3D) seismic across an asset is a major advantage to the Partnership. In the same manner an ultrasound (or an MRI with somewhat different science) helps a doctor diagnose internal conditions of the body, 3D seismic provides the same insight into the internal conditions of the subsurface. Both use physics to "see" the interior using advanced sound waves. For 3D seismic, sound waves are generated at the surface and directed downwards into the earth and are reflected at formation boundaries back to the surface due to differences in their density, porosity, and impedance.[1] The returning sound waves are recorded and then processed in a seismic processing center so geoscientists can look for oil and gas within a three-dimensional model of the interior of the earth.

When processed and interpreted correctly, geoscientists can see structural and stratigraphic features where oil and gas are likely to be trapped within the subsurface. Using advanced interpretations, including attributes generated from all the physical characteristics of the sound waves, we can also see formation differences, faults, fractures, and even differentiate between water, oil, and gas.

To acquire a 3D seismic survey across large land positions takes time. Large surveys can take several years to permit and shoot. Once shot, the processing can take several months to six months, so a survey of over 100 square miles usually takes approximately 1.5-2 years, or longer. The cost to shoot a survey is dependent upon the terrain, the number of surface and mineral owners, weather, and many more variables, but ranges between $60,000 to $110,000 per square mile for the shoot itself. Tacking on the processing and interpretation costs can realistically add another $5,000 to $10,000 per square mile, or more.[2] So, for example, a 100 square mile survey at $80,000 per square mile to shoot and $10,000 to process and interpret would run a company approximately $9 million dollars…and time. It can take several years to perform this scientific endeavor, which delays the drilling and production of many reservoirs.

There are ways to mitigate some of the costs of 3D seismic, including by entering into joint ventures

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[1] *See generally* Wikipedia, The Free Encyclopedia, Seismic Attribute, at https://en.wikipedia.org/wiki/Seismic_attribute.
[2] *See, e.g.,* Seitel – A Leading Provider of Seismic Data & Geophysical Expertise, at https://www.seitel.com/; SEI Seismic Exchange, at https://www.seismicexchange.com/.

with other companies or licensing data that has already been shot from a seismic brokerage company. The latter can be done for about one third of the typical cost, but the recipient cannot be assured that the data has been shot over the area of interest or its acquisition and processing age. Like all products, newer technology allows for better data and better science, and some of the seismic brokerage company's data may be several decades old and not designed for the use of seismic attributes. In reflection seismology, a seismic attribute is a quantity extracted or mathematically derived from seismic data that can be analyzed in order to enhance information that might be more subtle in a traditional seismic image, leading to a better geological or geophysical interpretation of the data.[3] Many attributes require more modern acquisition and processing designs in order to extract specific mathematical or geological indicators.

The purpose of describing 3D seismic herein is to emphasize the Partnership's opportunities at hand. As discussed herein, the Partnership Assets include acreage positions which have already been surveyed with 3D seismic, which gives us a distinct advantage in preparing wells to drill and locating them in the best possible spots to find new hydrocarbon reservoirs without the delay and cost of shooting the seismic data ourselves.

[3] Science Direct, *Prediction of petrophysical parameters using probabilistic neural network technique*, citing Prabodh Kumar Kushwaha, et al., Basics of Computational Geophysics, 2021, at https://www.sciencedirect.com/topics/earth-and-planetary-sciences/seismic-attributes.

PARTNERSHIP ASSETS

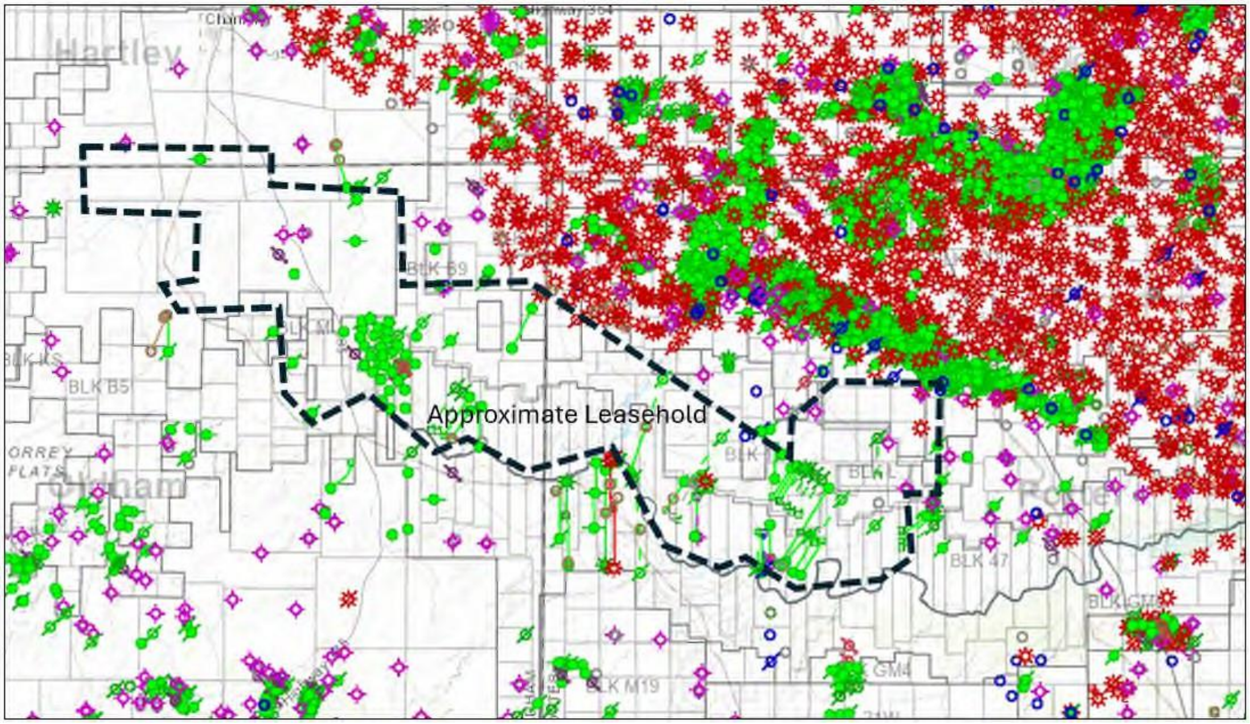
1) BIVINS RANCH PROJECT (SUNLIGHT)

The Partnership has entered into a Participation Agreement with Sunlight Exploration, Inc. to acquire, explore, drill and develop oil and gas reserves in the Canyon Lime formation covered by an oil and gas lease covering approximately 61,281 acres in Potter and Oldham Counties, Texas. The Partnership will earn 87.5 % working interest and 65.625 % net revenue interest in the first ten (10) wells drilled before payout. To earn said 87.5 % working interest, the Partnership will pay 100 % of the initial drilling and completion costs and carry Sunlight for 12.5 %, thereby earning 87.5 %. Upon payout of the initial ten (10) wells Sunlight will back-in for an additional 12.5 %, thereby reducing the Partnership's working interest to 75.0 % and 56.525 % net revenue interest. The Partnerships working and net revenue interest in all subsequent wells will be 75.0 % / 25.0 % respectively.

Drilling operations are planned to commence in the fall of 2024 and continue into 2025 and potentially beyond.

The Partnership has obtained from Sunlight a license to a large 3D seismic database covering approximately 348 square miles and the majority of the Bivins Ranch Project. Such seismic data will not only define the objective formation (Canyon Lime formation) but also help geosteer the horizontal wells drilled within the ranch.

Overview of Production History of General Area

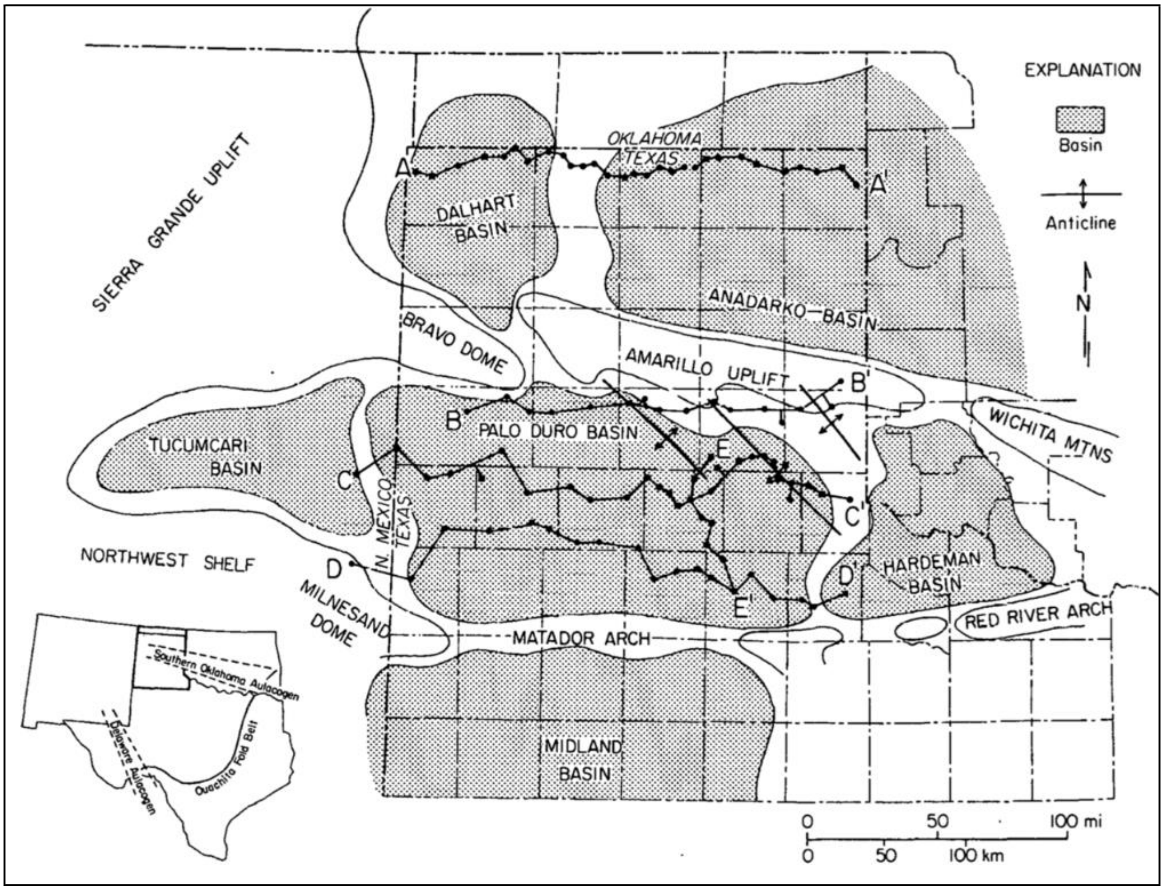


Enverus Maps.

The Canyon Lime play in Potter and Oldham Counties is an emerging play with 47 horizontal wells and 30 vertical wells drilled since 2012. Only a handful are economic due to drilling issues; primarily staying in zone due to the faulted nature of the formation. Two horizontal wells have produced over 300,000 barrels of oil and three vertical wells have reached above 300,000 barrels of oil. Of those five wells, three of them have exceeded 500,000 barrels of oil. Horizontal wells also have a gas contribution with the average cumulative production from the 47 wells being over 725.000 Mmcf (3/4 Bcf). The 30 vertical wells have seen similar gas production with a lower average of just over 300,000 Mmcf.

The Bivins Field is considered part of the Palo Duro Basin in the southern portion of the Texas Panhandle. It is a small basin south of the Amarillo Uplift and separated from the Anadarko Basin to the north by the same uplift. This basin was created 320 to 250 million years ago when the ancestral Rocky Mountains were formed in the late Pennsylvanian Period and into the Permian Period.

The many wells shown on the map above, north of the leasehold, are old shallow vertical wells producing from the much shallower Permian Red Cave Formation. They sit atop the Amarillo Uplift.



SEG Wiki

The Canyon Group was deposited in the Pennsylvanian Period and is comprised of limestones and shales. Below is the Strawn Formation and above is the Cisco Formation both of which are comprised of terrigenous material. The Pennsylvanian System and Wolfcampian Series are described by Kenneth S. Johnson and others in, "The Geology of the Southern Midcontinent" published by the Oklahoma Geological Survey in 1989 as "Sedimentation during Pennsylvanian and Wolfcampian time was influenced by basin structure and subsidence, and by faulting in the surrounding uplifts. … Pennsylvanian and Wolfcampian strata can be divided into four depositional systems; (1) fan-delta system, (2) carbonate shelf and shelf-margin systems, (3) high-constructive delta systems, and (4) slope and basin system." The area of the Sunlight Energy deal is primarily located in the second of the four phases with the target zone being in the lime, or carbonate section of the Canyon Group.

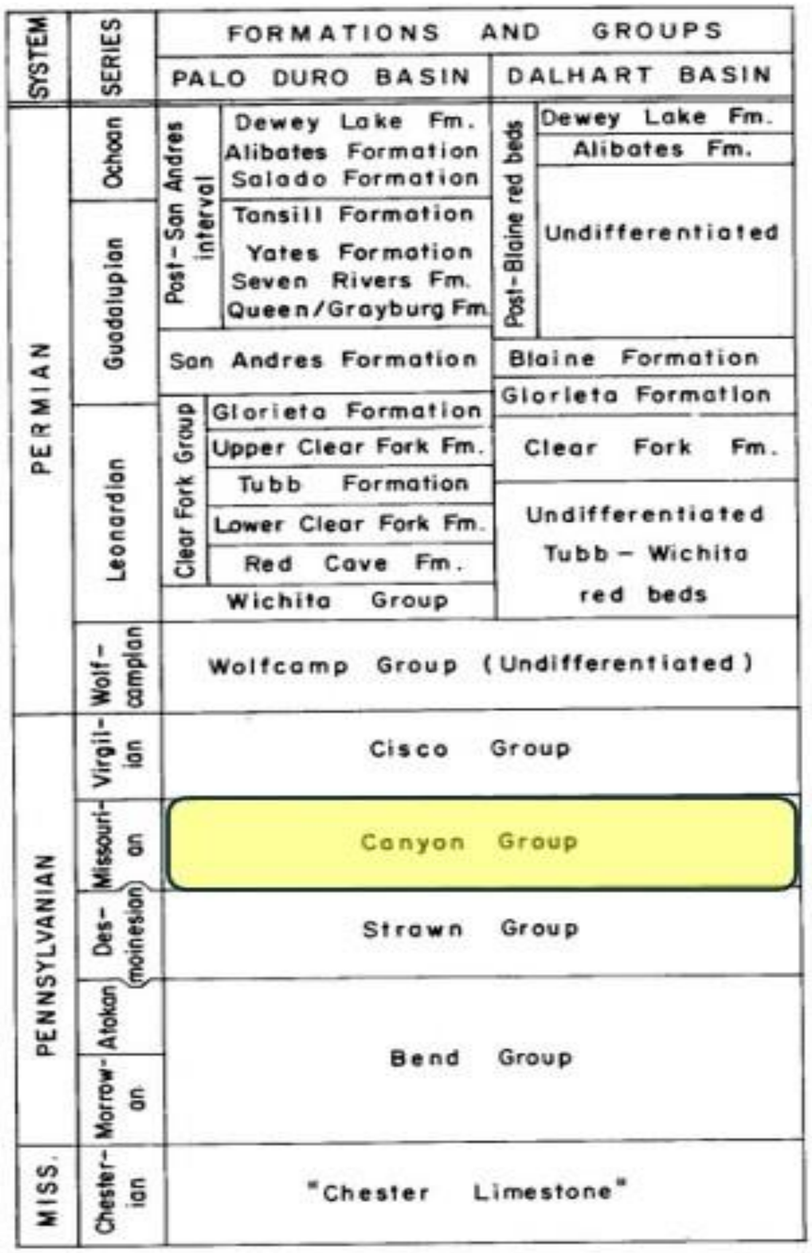
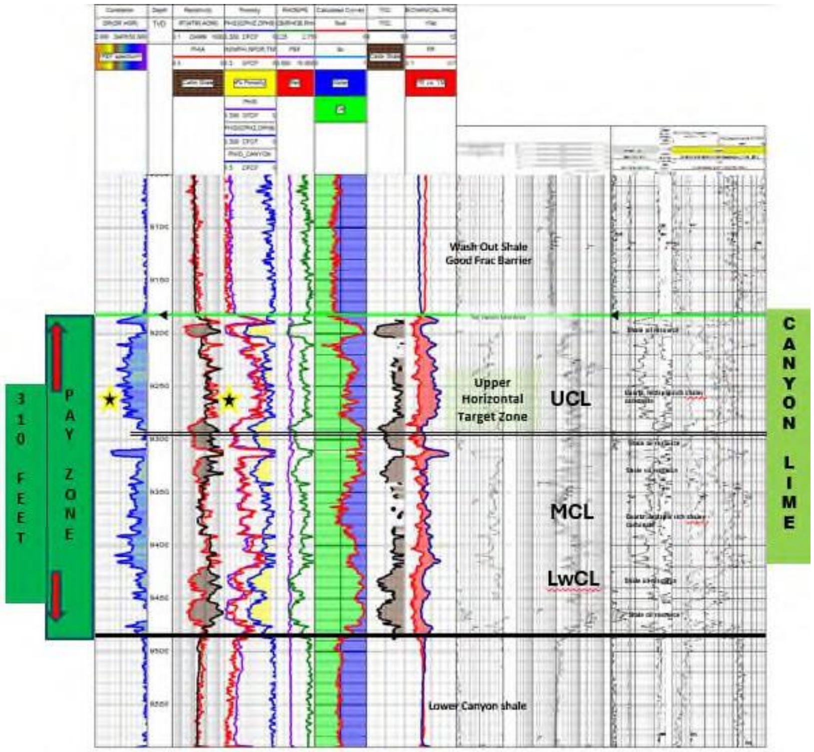
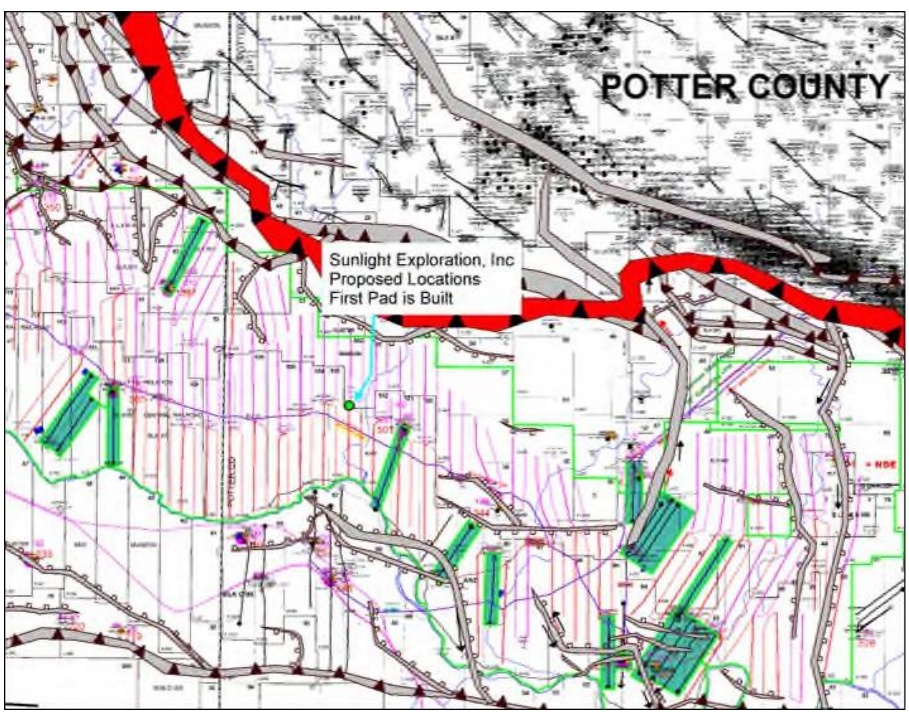


Figure 24. Stratigraphic chart of Pennsylvanian and Permian strata in the Palo Duro and Dalhart Basins (after Nicholson, 1960; McGillis and Presley, 1981).

The target area zone for the first wells is the Upper Canyon Lime at approximately 9,300' in depth. Porosity is expected to be in the 6-9% range with oil saturation at approximately 60%.



The first location is west of the producing Bivens East 1011H well which has a cumulative production of 134,157 BO and 9,333,613 Mcf. Two wells will be drilled from this location saving capital on construction costs and rig moves. One lateral will be drilled north, and the other lateral drilled to the south with the goal of reaching 7,500' in each lateral.



BIVESN RANCH PROJECT SUMMARY

This partnership with Sunlight provides a large contiguous acreage position and many horizontal drilling locations for the future. The Partnership's objective for this oil field is to drill two wells in 2024 to prove up the play concept. In 2025 we will then proceed with the drilling of additional wells, and if successful, proceed with an aggressive development drilling program.

2) RISE ENERGY PROJECT (HOCKLEY COUNTY, TX)

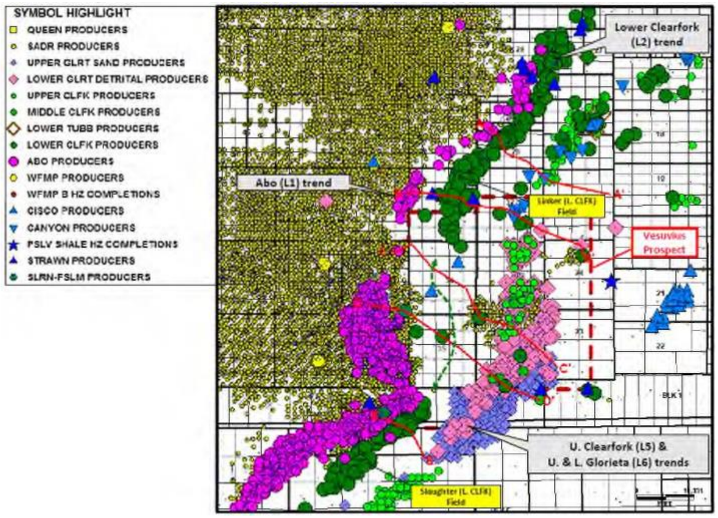
The Partnership has entered into a Participation Agreement with Rise Oil and Gas, Inc. to acquire, explore, drill and develop oil and gas reserves in the San Andres formation covered by various oil and gas leases covering approximately 3,700 acres in Hockley County, Texas. The Partnership will earn 87.5 % working interest and 65.625 % net revenue interest in the first four (4) wells drilled. To earn said 87.5 % working interest, the Partnership will pay 100 % of the initial drilling and completion costs and carry Rise for 12.5 %, thereby earning 87.5 %. Upon payout of the initial four (4) wells, on a well-by-well basis, Rise will back-in for an additional 12.5 %, thereby reducing the Partnership's working interest to 75.0 % and 56.525 % net revenue interest. The Partnerships working and net revenue interest in all subsequent wells will be 75.0 % / 25.0 % respectively.

Drilling operations are planned to commence in the fall of 2024 and continue into 2025.

Overview of Production History of General Area

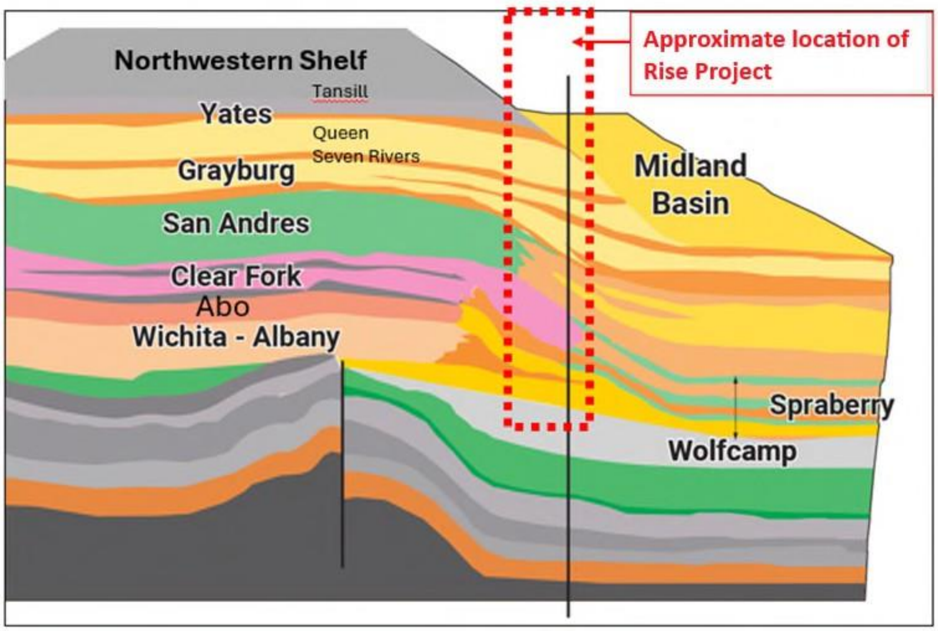
The Rise Energy Project is in a historically productive area of the Northwestern Shelf of the Permian Basin. This area has produced hydrocarbons from many shallow horizons for nearly 90 years. Per Wikipedia, "The Eastern and Northwestern Shelves are composed of shelf edge reefs and shelf carbonates flanking the Delaware and Midland Basins that grade up-dip into siltstones and evaporites. The Eastern and Northwestern Shelves are subdivided into the San Andres, Grayburg,Queen,Seven Rivers, Yates, and Tansill Formations."

The map below depicts the producing formation across Hockley County. Each reservoir produces along a strike trend where formations stratigraphically trap the oil. The colored symbols denote which formation is the producing interval and get stratigraphically deeper as you move eastward.



Geological and Geophysical Summary

Block Diagram of the Northwestern Shelf of the Permian Basin



The many oil fields in this area sit atop or along the Northwestern Shelf of the Permian Basin. Oil generated deep in the Permian Basin has migrated updip over millions of years filling any formation porosity along the way creating reservoirs in multiple formations. Water has also migrated updip along with the oil, so all these wells make considerable amounts of water, which is then disposed of in water injection wells,

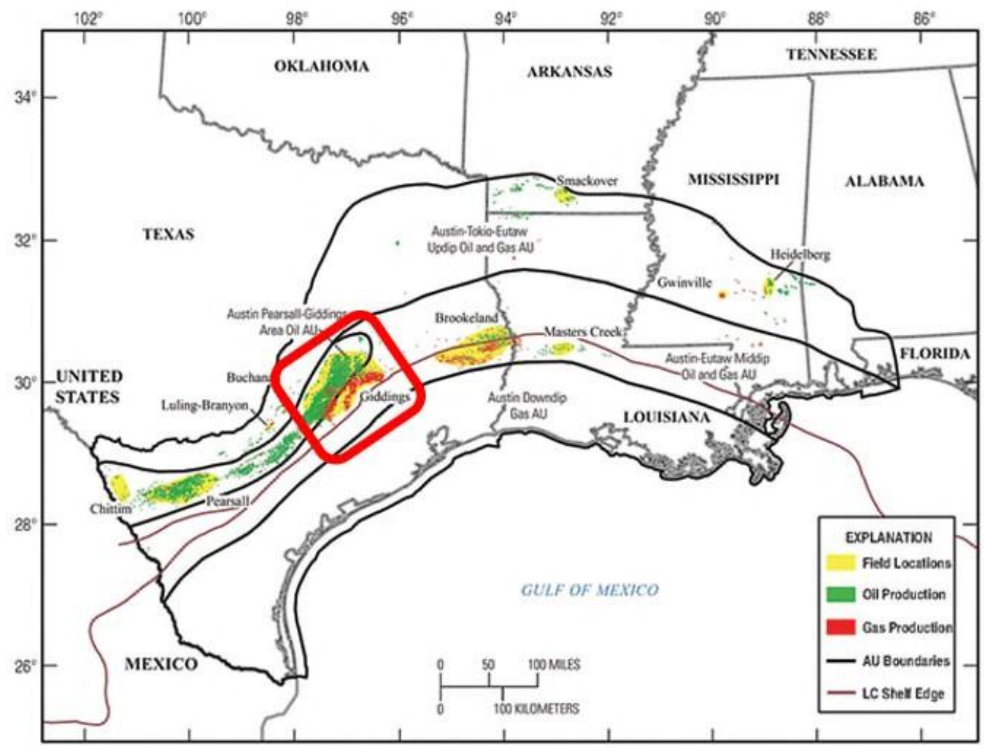
RISE ENERGY PROJECT SUMMARY

This partnership with Rise provides a significant contiguous acreage position with the potential for horizontal drilling locations for the future. The Partnership's objective for this oil field is to drill one well in 2024 to prove up the play concept. In 2025 we will then proceed with the drilling of additional wells, and if successful, proceed with an aggressive development drilling program.

3.) GIDDINGS AUSTIN CHALK (FAYETTE COUNTY, TX)

This partnership with Dominance can provide several additional leases and drilling locations within the Giddings Field. The Partnership's objective for this oil field is to produce a commercial first well, then proceed with the drilling of additional locations.

The Partnership's prior success with Dominance in our previous drilling program has resulted in the continued efforts to acquire additional high quality drillable Austin Chalk opportunities. We continue to pursue greenfield leasing efforts, partnership and farmout opportunities in Fayette and surrounding counties. All such efforts are geologically high graded and only the best are evaluated.



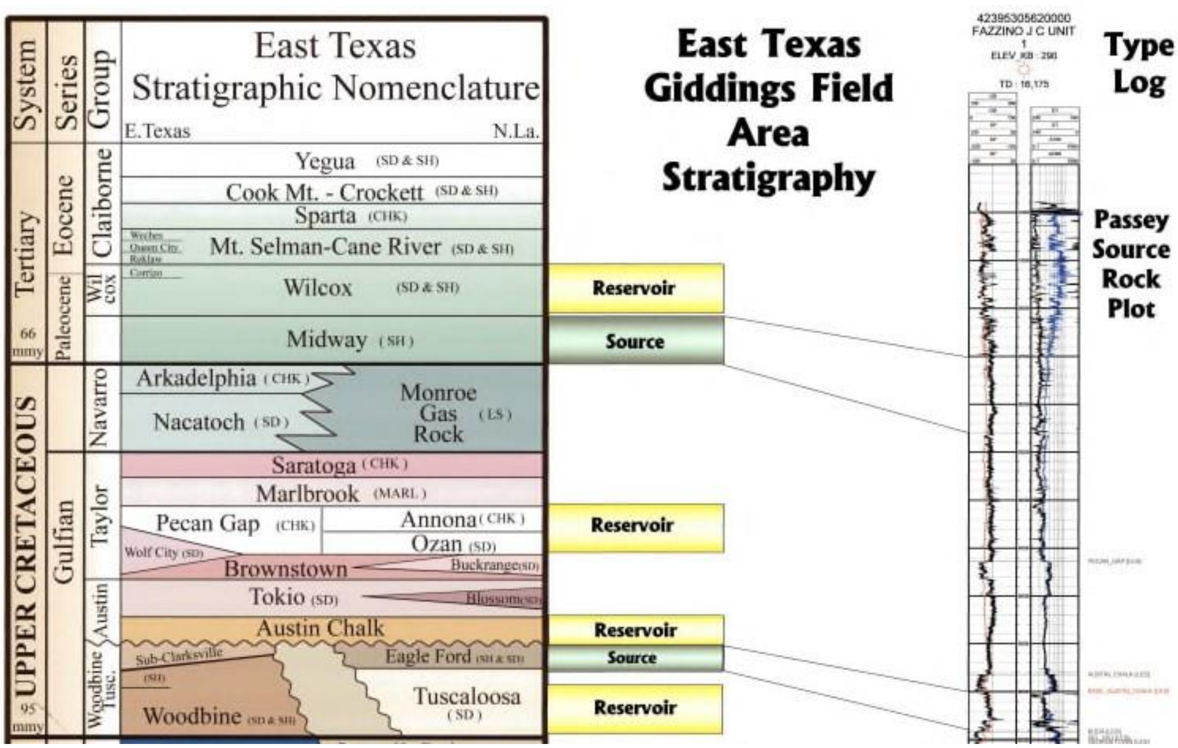
Overview of Production History of General Area

The Austin Chalk trend across Texas and Louisiana is a prolific oil and gas producing interval having produced more than 1.28 billion barrels of oil and 6.27 trillion cubic feet of gas.[4] In 2020 the USGS updated assessment estimated that the Austin Chalk, and associated Tokio and Eutaw Formations, contained 6.9 billion barrels of oil and 41.5 trillion cubic feet of gas. The Giddings Field itself has historic production estimates of 526 million barrels of oil and 4.7 trillion cubic feet of gas.

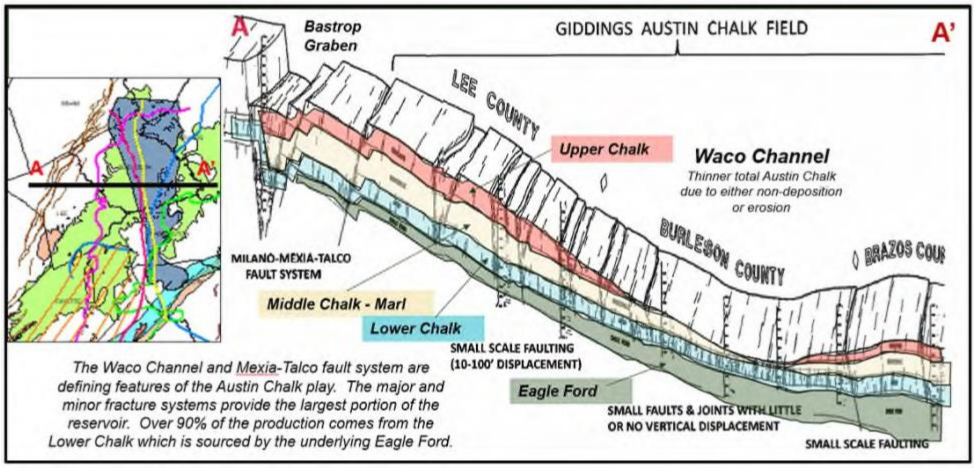
The Giddings Field in Fayette County, Texas was the birthplace of the Austin Chalk with the first vertical wells drilled in 1961. The play expanded significantly in 1977 and has seen drilling almost continuously since the late 1970's. In the late 1980's horizontal drilling began and the field quickly expanded as this new technology allowed operators to access the tight porosity of the chalk with long wellbores. The advent of hydraulic fracturing in the mid to late 1990's began another revolution in the play as significant production increases were observed using this technology. The field is now expanding further downdip into the gas-rich region and with infill drilling which uses longer and bigger hydraulic fracturing techniques to reach out to all fractures within the chalk.

The Partnership's interest is participation in the development of the Austin Chalk Formation on leases Dominance acquired through a farmout agreement with the Dallas Petroleum Group. Below is a stratigraphic description of the targeted pay zones situated within the Dominance acreage position.

East Texas Stratigraphy



The goal of this project is to find infill locations where old wells have not yet been hydraulically stimulated or have not drained the entire Chalk section. Many of the historic areas of the field did not reach the late 1990s stages where large fracs were utilized, leaving an opportunity for King to come in and drill these infill locations.



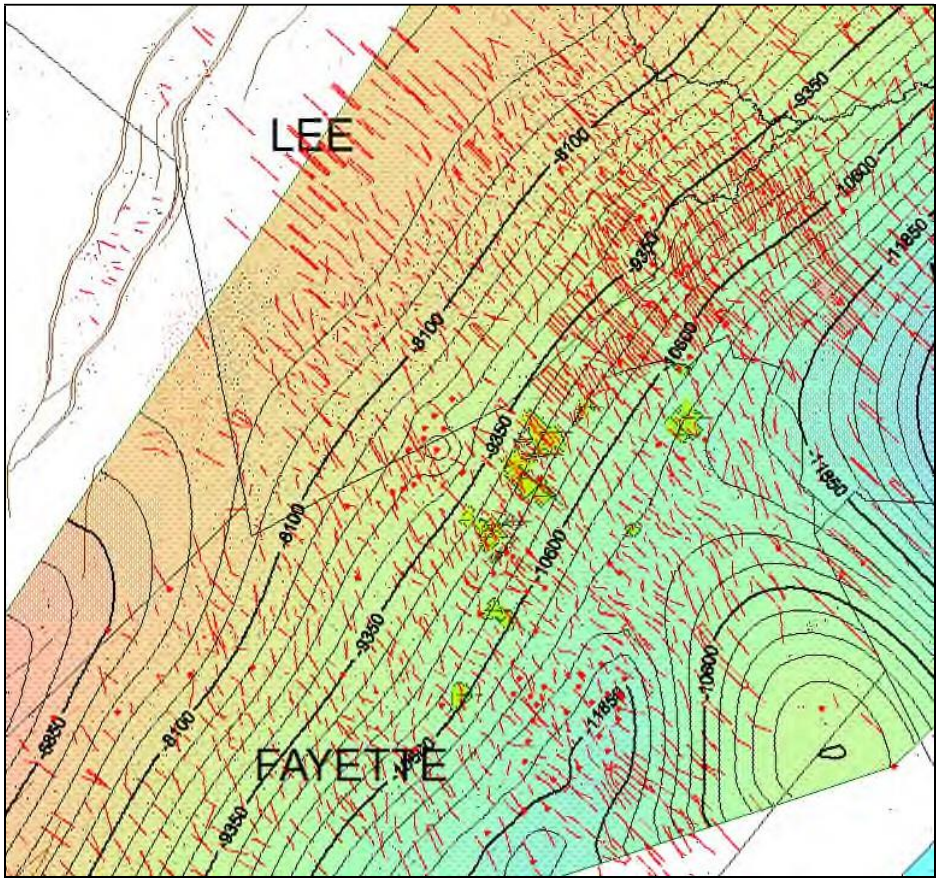
The Austin Chalk was deposited in the Upper Cretaceous period along and broad carbonate shelf in the ancestral sea, or proto-Gulf of Mexico. It exists from the Mexico border through Texas and into Louisiana. The chalk has low primary porosity and permeability and relies on the brittle nature of the rock which has been extensively fractured from tectonic activity.

The thickness of the entire Austin Chalk is greatest in western Lee and western Fayette Counties where it exceeds 800 feet. The section thins to the east approaching the Brazos Salt Basin where either by non-deposition, or erosion, the chalk is cut down to under 200 feet. This thinning does not present any problems because the pay zones are in the lower Austin Chalk in the A or D zone. Our first prospect, the Pietsch #1H, is targeting the Austin Chalk A zone with a 7300' horizontal lateral.

Hydrocarbon sourcing comes from the underlying Eagle Ford shale. The shale reached thermal maturity in the deeper Brazos Basin creating oil and gas which then migrated up dip, and up section, filling the many fractures within the chalk.

From a structural perspective, the Austin Chalk dips southeastward towards the gulf coast as seen in the figure below. Our targeted Austin Chalk A zone will be drilled at approximately 10,400 feet true vertical depth.

BASE AUSTIN CHALK SUBSEA STRUCTURE MAP



Reservoir properties can best be described by the following excerpt from the USGS Scientific Investigations Report 2012-5159. "The Austin Chalk is a low-porosity, low-permeability carbonate with a dual pore system. It has a micro-porous matrix with micropores ranging in size from 5 to 7 microns and a moderately interconnected fracture system. Matrix porosity commonly ranges from 3 to 10 percent and generally decreases with depth. Permeability also decreases with depth, and it is typically near 0.5 mD and locally around 0.1 mD. Because of such low porosity and especially low permeability, production must rely heavily on fracture porosity and permeability.

Water saturations are generally high, from 45 to 80 percent, and residual oil saturations range from 10 to 50 percent. Tectonic fracturing within the Austin increases local permeabilities to over 2 darcies. Fracture density and connectivity are highly variable, however, depending on proximity to faults, mineralogical variations (such as an increase in clay content), bed thickness, and the distribution of post-fracture cements. Fracture densities of more than 20 microfractures per foot have been observed in core.

Near-vertical fractures are abundant in the area of study with widths of 0.1 mm to 4 mm. Bleeding oil or oil staining is common along fractures, which indicates that fracture networks provide migration pathways for hydrocarbons. Two or three generations of intersecting fractures are generally present with the earliest tending to be partially or completely cemented with calcite. A second orthogonal set typically remains uncemented, and a third set consists of “gash fractures” that are associated with stylolite development.

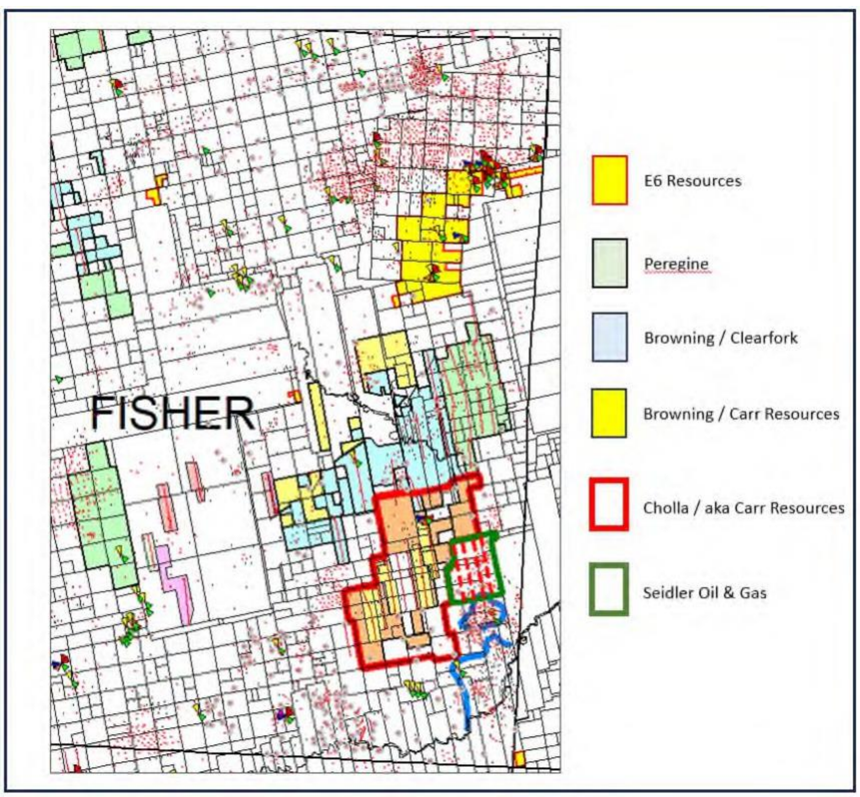
Most fractures in the Austin Chalk were created in response to the downwarping of the Gulf Coast basin, paired with associated faults and localized uplifts that tend to parallel regional strike of rock units. Where associated with major faulting, fractures tend to be concentrated on downthrown fault blocks and within grabens. This creates a fracture network that typically communicates in a strike direction rather than in a dip orientation leading to variable gas-oil ratios at the updip and downdip limits of production.”

GIDDINGS AUSTIN CHALK SUMMARY

Resulting from prior success, the Partnership continues to pursue geologically vetted Austin Chalk opportunities in the Gulf Coast Basin centered around activity in Fayette County.

4.) EASTERN SHELF (FISHER COUNTY)

King continues to enjoy success participating in a highly successful drilling program in Eastern Fisher County, Texas targeting the Strawn/Goen formation. King continues to evaluate its past and present drilling and development opportunities and therefore is expanding such opportunities in the area. The use of 3D seismic, production data and other resources help King identify areas of interest.



The target formations in the Fisher County opportunities include all sediments in the uppermost Pennsylvanian and lowest Permian Systems, including the Goen Limestone, Palo Pinto, and Canyon as the primary targets, with Strawn carbonates as the secondary targets. The Strawn is also being pursued in western Fisher and Scurry Counties, Texas, by operators such as Peregrine, Browning, Clearfork, and Verado.

Previous wells in the area were targeting the lower Strawn Carbonate intervals similar to the Scurry and western Fisher County operators are doing, but recent wells have found the best target in eastern Fisher County to be in the Goen Limestone above the Strawn Carbonates. The recent Cholla 1-H Buffalo well landed in this interval as is realizing excellent production. In the first 254 days it has made 146,216 Bo and 180,460 Mcf. Expected Ultimate Recovery (EUR) for subsequent wells is listed at 620,000 Bo and 1,800 Mmcf per well. A second well, the Johnson#1H is reported to have an initial production of 900 BOPD with an unreported amount of gas. These wells do make associated water which is handled by a saltwater injection well. The oil cut is generally in the 16% – 20% range. King has also recently participated in four additional wells which are all performing exceptionally.

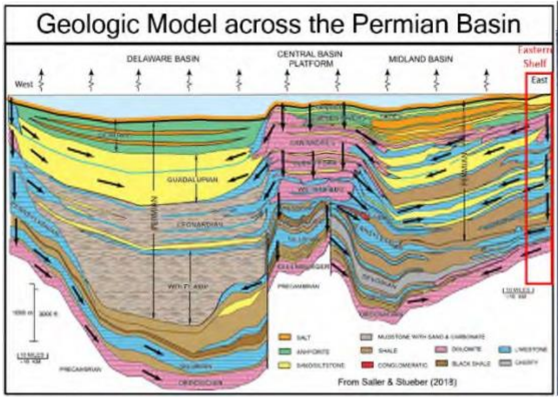
Overview of Production History of General Area

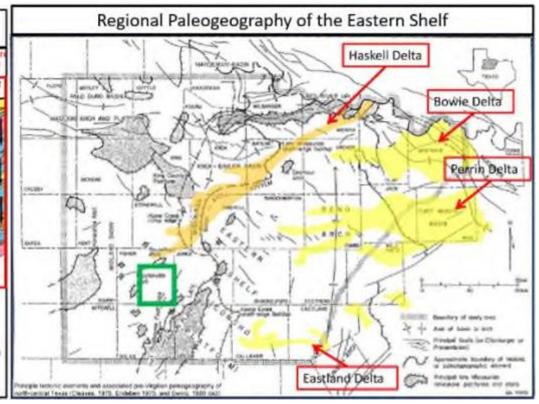
Fisher County has a long history of hydrocarbon production from many horizons, most notable Canyon Formation which has accounted for over 49 Mmbo and 62 Bcf. But other producing formations include the Caddo, Ellenberger, Goen, Strawn, Wolfcamp, and Swastika, and other minor formations. These figures are all based upon Enverus's database of historical production which may not have all the data recorded. Historical records only go back to the 1970's and many wells have been producing for decades before that time frame.

The two target formations, Strawn and Goen, have produced over 4.4 Mmbo and 11.6 Bcf to date and will continue to rise with the current horizontal drilling in those formations.

Geological & Geophysical Summary

East of the deep Midland Basin is a geologic province called the Eastern Shelf. During Permian time, this was a slightly west-dipping continental surface that led into the sinking Midland Basin. It was on this surface that sediments were delivered to the emerging basin via river systems and surface depositional processes. This surface would have been similar to a modern depositional system like the Gulf coast where a lowland meets the water.





This depositional environment was during a time of ten or more glacial cycles that raised and lowered the sea level along this ancient coastline multiple times. This systematically created northeast trending stratigraphic lows which were filled with oolitic limestone which became the stratigraphic trap and reservoir. The area shown with a green square in the map below is the prospect area.

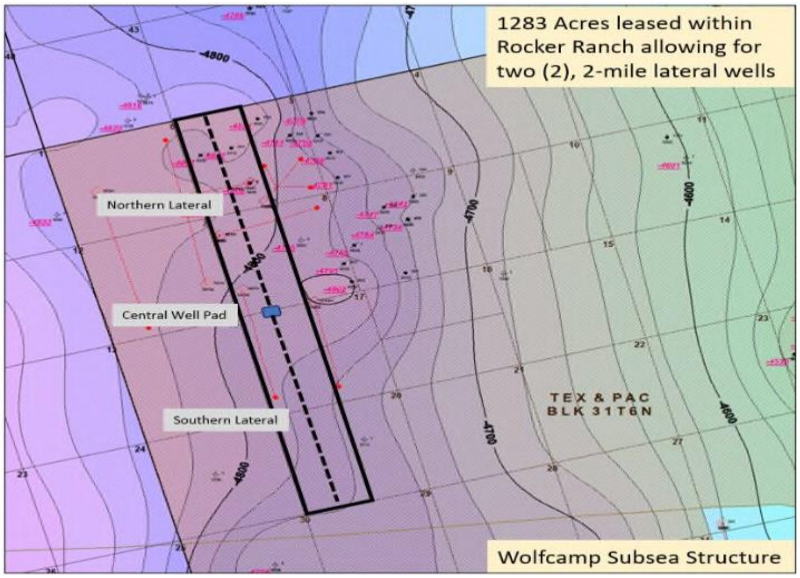
EASTERN SHELF SUMMARY

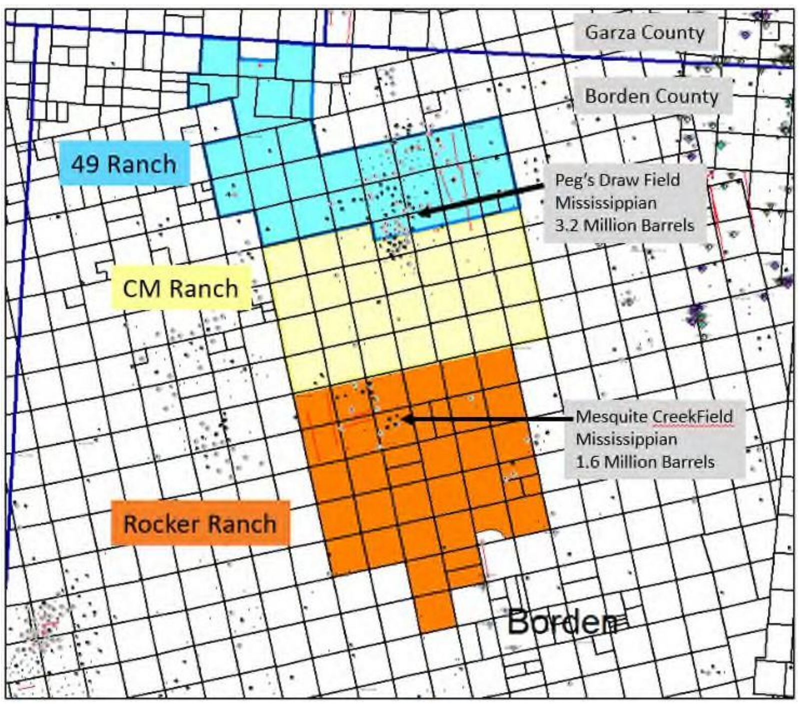
As reflected above, King continues its evaluation of the Strawn/Goen formation and continues its efforts to further grow its position in Eastern Fisher County.

5) ROCKER RANCH (BORDEN COUNTY, TX)

Asset Summary

The Rocker Ranch Project consists of an option to acquire an oil and gas lease on three separate ranches in Borden County, Texas: 1) Rocker Ranch covering 21,080 acres, 2) CM Ranch covering 16,640 acres and 3) 49 Ranch covering 15,500 acres. The Partnership exercised the option to lease 1,283 acres in the Rocker Ranch. The Partnership has until mid-to-late 2025 to exercise its option and lease the remainder of all or part of the three ranches. Advanced technical analysis is underway using 3D seismic data over existing fields and undrilled areas, with the potential for hydrocarbons in the Wolfcamp, Mississippian, and Spraberry formations. The Partnership continues its technical evaluation of potential targets and may exercise its option to acquire additional leases on one or more of the above ranches.





Overview of Production History of General Area

Rocker Ranch is surrounded by producing fields detailing excellent cumulative production figures from multiple formations. The Fluvanna Field east of the leasehold about seventeen (17) miles has produced more than 30.5 million barrels of oil ("Mmbo") from the Strawn, the Tripolitic Chert, and the Ellenburger. Southeast of here the Myrtle Field has produced over 5.1 Mmbo from the Wolfcamp and Strawn, The Rocker Field to the north has exceeded 25 Mmbo from the San Andres, Glorieta, and Wichita Albany. Peg's Draw Field to the east has produced more than 10.6 Mmbo from the Spraberry and Tripolitic Chert. Nine other smaller fields have a combined production of over 43 Mmbo from the same formations mentioned above.

The production history of the immediate area is very encouraging, and the large number of producing formations makes this project very exciting. Our technical team is optimistic regarding the hope to develop and procure a large quantity of recoverable oil reserves.

Geological & Geophysical Summary

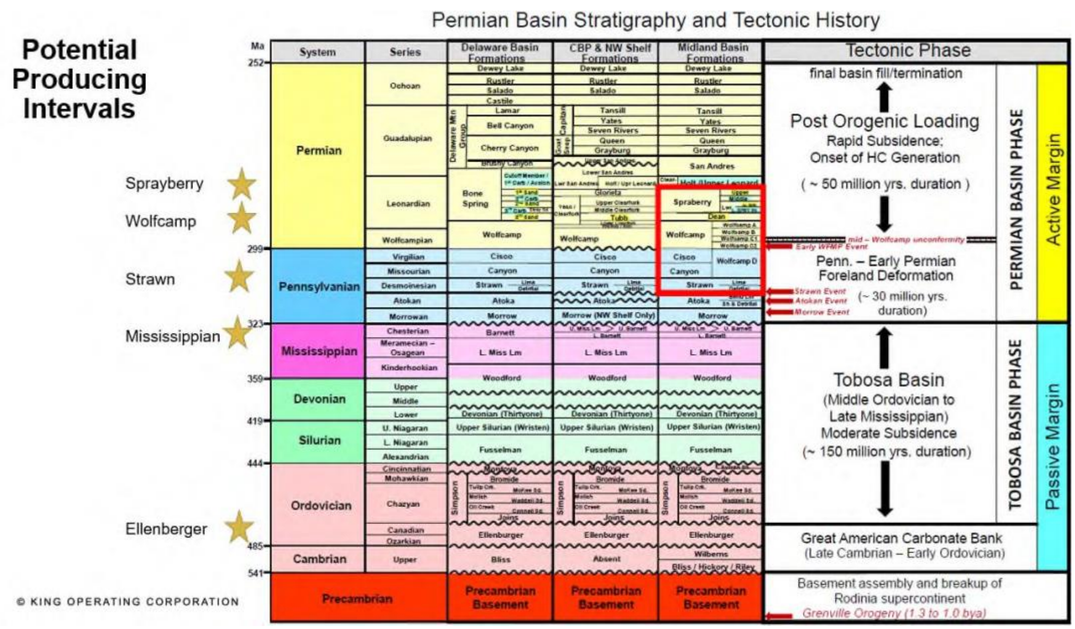
The Midland Basin is a deep structural basin within the greater Permian Basin and is currently the hottest drilling and producing area in the country due to the presence of some of the richest source rocks found anywhere in the world, which include the Wolfcamp and Spraberry formations. The eastern edge of the Midland Basin rises sharply to a shallow mildly dipping surface known as the Eastern Shelf. The shelf was exposed at times during deposition of the Wolfcamp sediments but continued to sag gently as the basin deepened. It gathered near shore shallow deltaic deposits, lagoons, bar sands, river channels, and other near shore geomorphic features commonly seen in a near shore depositional environment.

The main target for this area will be the Upper Pennsylvanian and Lower Permian systems including formations such as the Wolfcamp, Canyon, and Cisco. Deposition began when the basin began to sag in the Permian and continued as the entire basin formed. Rich sediments with large quantities of Total Organic Carbon (TOC) filled the basin from the east filling the basin bottom. Continued burial created pressure and higher temperatures which converted the TOC to oil. There are four zones within the Wolfcamp (A, B, C, and D), with the Canyon and Cisco below the Wolfcamp D. Currently this is the most attractive drilling zone in all the Midland Basin and operators continue to march northward from the current boom area.

A secondary target will likely be the Mississippian Limestone or Chert. The depositional environment created a unique environment on the top of the semi-exposed Mississippian unconformable surface and allowed for the creation of a somewhat abnormal geologic formation known as Tripolitic Chert. In petrology, chert refers to a chemically precipitated sedimentary rock composed of microcrystalline silica. It can form in alkaline lakes, or as hot springs deposits, where microscopic animals called radiolarians and diatoms thrive. These tiny animals have siliceous skeletons' which rain down to the bottoms as they die, forming deposits of siliceous skeletons cemented by carbonates. Over time, diagenesis takes place, chemically replacing the siliceous skeletons with a hard microcrystalline silica deposit known as chert. Chert is a hard, tight, brittle rock that fractures easily, and may be known commonly as "flint." During tectonic activity, the rock fractures and further diagenesis dissolves the carbonates by meteoric waters leaving a rock that is filled with vugular porosity, karstic voids, and fractures. Since chert is not a reservoir rock, the fractures and vugs are the real reservoir in this play. One caution to remember is that this rock is at an unconformity and, therefore, has been eroded away in areas. This makes the seismic data available to the Partnership very valuable.

The porous nature of the fractured formation creates a perfect scenario for evaluation by seismic data. The boundary between the underlying slow, porous, and fractured chert contrasting with the overlying tight fast limes and shales sets up a definitive impedance boundary creating a large amplitude reflection on seismic, which is easy for geoscientists to see and evaluate. By using advanced seismic amplitude attributes to reveal the best fractured areas, we can place our wells where we are sure the Tripolitic Chert exists and not where it has been eroded away at the unconformity.

Additional targets include the Ellenburger Carbonate and the Spraberry Sandstones.



ROCKER RANCH SUMMARY

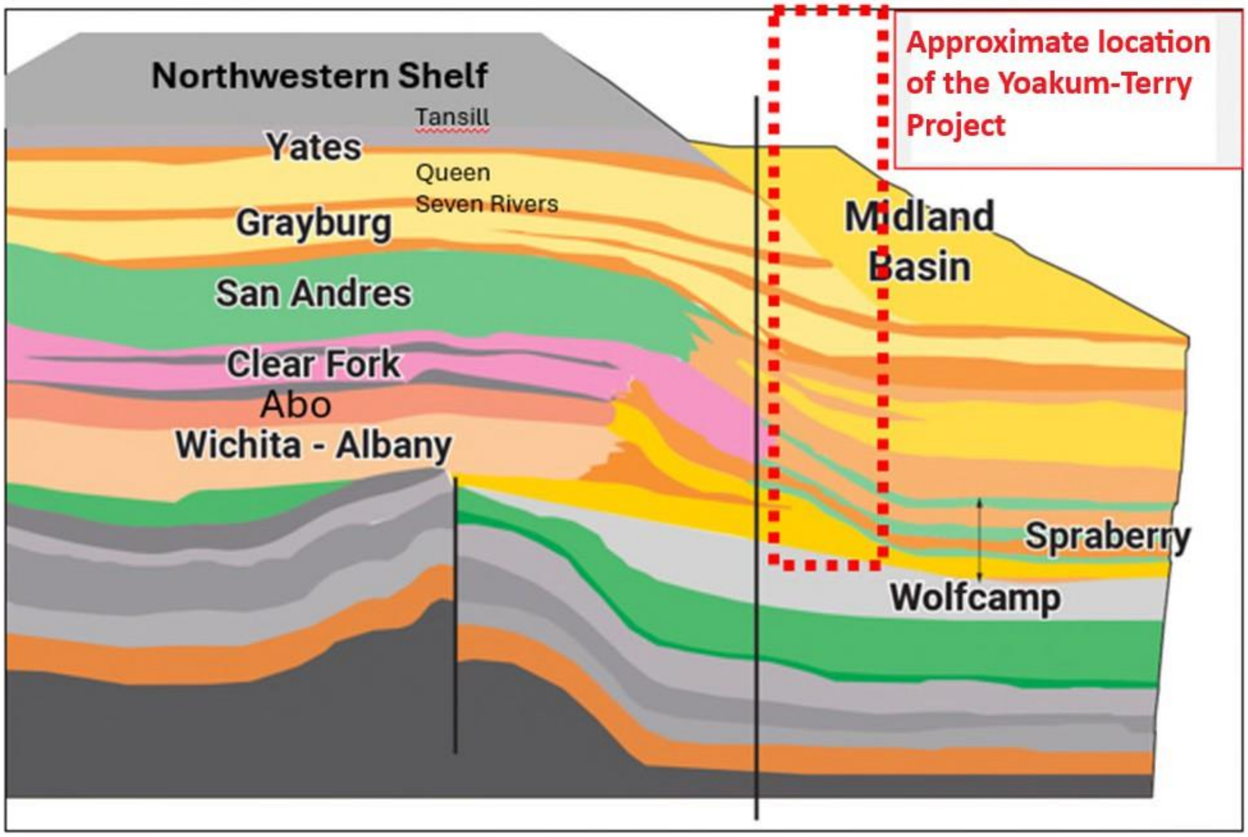
As reflected above, the Partnership continues its evaluation of the Wolfcamp, Mississippian, and Spraberry formations and continues its efforts to further refine its position on the ranches. Our goal is to continue to generate drillable prospects on the acreage we have rights to and drill and develop same.

6) YOAKUM-TERRY PROJECT

The Yoakum-Terry Project is in the extreme northwestern portion of the Midland Basin in a historically productive region just east of the Northwestern Shelf.This area has produced hydrocarbons from many shallow horizons for nearly 90 years. Per Wikipedia, “The Eastern and Northwestern Shelves are composed ofshelfedgereefsand shelf carbonates flanking the Delaware and Midland Basins that grade up-dip into siltstones andevaporites. The Eastern and Northwestern Shelves are subdivided into theSan Andres, Grayburg, Queen, Seven Rivers, Yates, and Tansill Formations.”

But more importantly, the recent discovery of highly productive deeper sediments in a horizontal Spraberry Formation well, along with old vertical Wolfcamp Formation wells have made this area a hot area to examine.

Block Diagram of the Northwestern Shelf of the Permian Basin

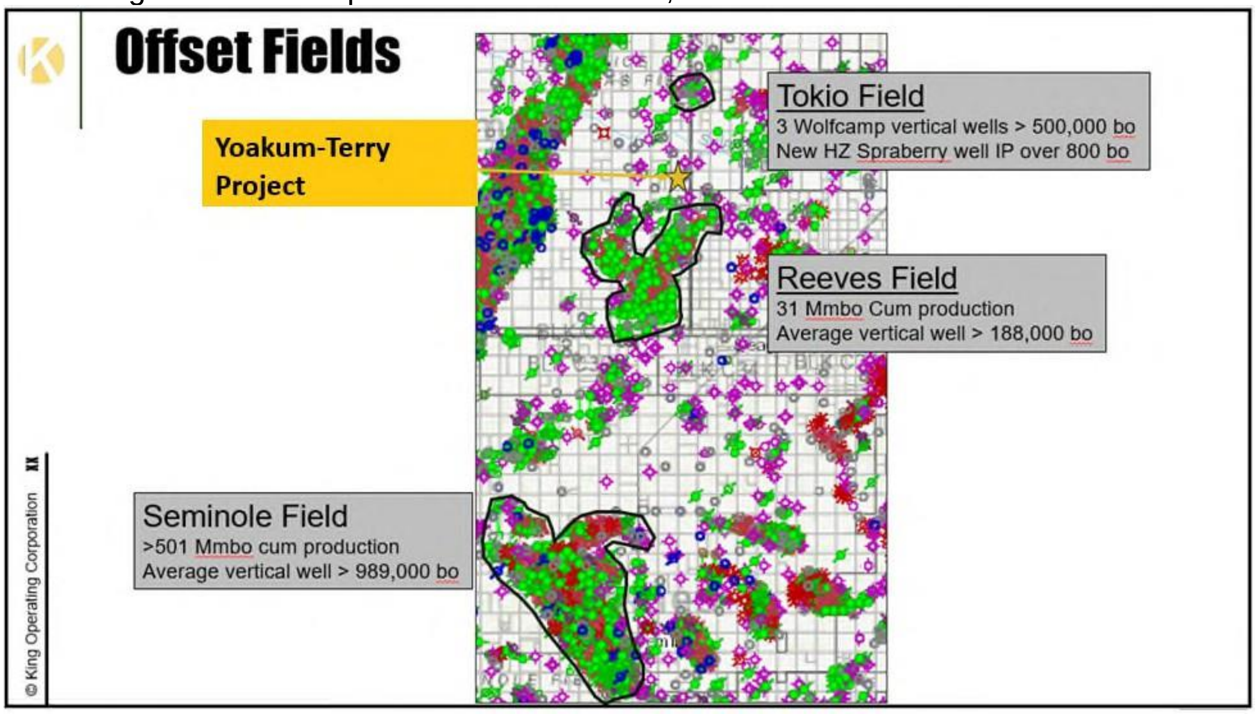


The many oil fields in this area sit atop, or along, the Northwestern Shelf of the Permian Basin.Oil generated deep in the Permian Basin has migrated updip over millions of years filling any formation porosity encountered along the way thereby creating reservoirs in multiple formations.Commercial production from these wells yields significant quantities of oil, however, large volumes of saltwater are simultaneously produced andrequire proper disposal using proper injection into saltwater disposal wells.

<u>OFFSET PRODUCTION</u>

Redtail Exploration recently drilled a Horizontal Lower Spraberry well that reportedly came online at over 800 bopd and continues at over 500 bopd after several months. That well sits 2.5 miles to the north of our prospect and Red Tail is permitting a second well. Additionally, the immediate area named the “Tokio Field” sits on this acreage with multiple vertical Wolfcamp wells that have reported cumulative oil production of more than 500,000 Bo each.

The Reeves field sits just 2 miles to the south of our prospect and has produced over 31 million barrels of oil from the shallow vertically drilled San Andres Formation. These old vertical wells have an average cumulative oil production of over 188,000 Bo/well. Further south in a similar structural setting is the Seminole Field which has produced over 501 million barrels of oil from the San Andres and Yates formations, which equals an average vertical well production of over 980,000 Bo/well.



GEOLOGY DISCUSSION

The Spraberry Formation comprises sediments shed off the Northwestern Shelf in West Texas, forming turbidites and submarine fan reservoirs which are mostly stratigraphically trapped; and with subsequent tectonics may be structural too. The formation consists of silty mudstones and clay-rich siltstones that vary from massive to laminated fine-grained sandstones. In this prospect area, the formation was deposited into a newly formed depression called the Midland Basin from west to east by river transport off the Northwestern Shelf. Portions of the formation form geomorphic features such as clinoforms, submarine fans, and finely layered laminated sediments.

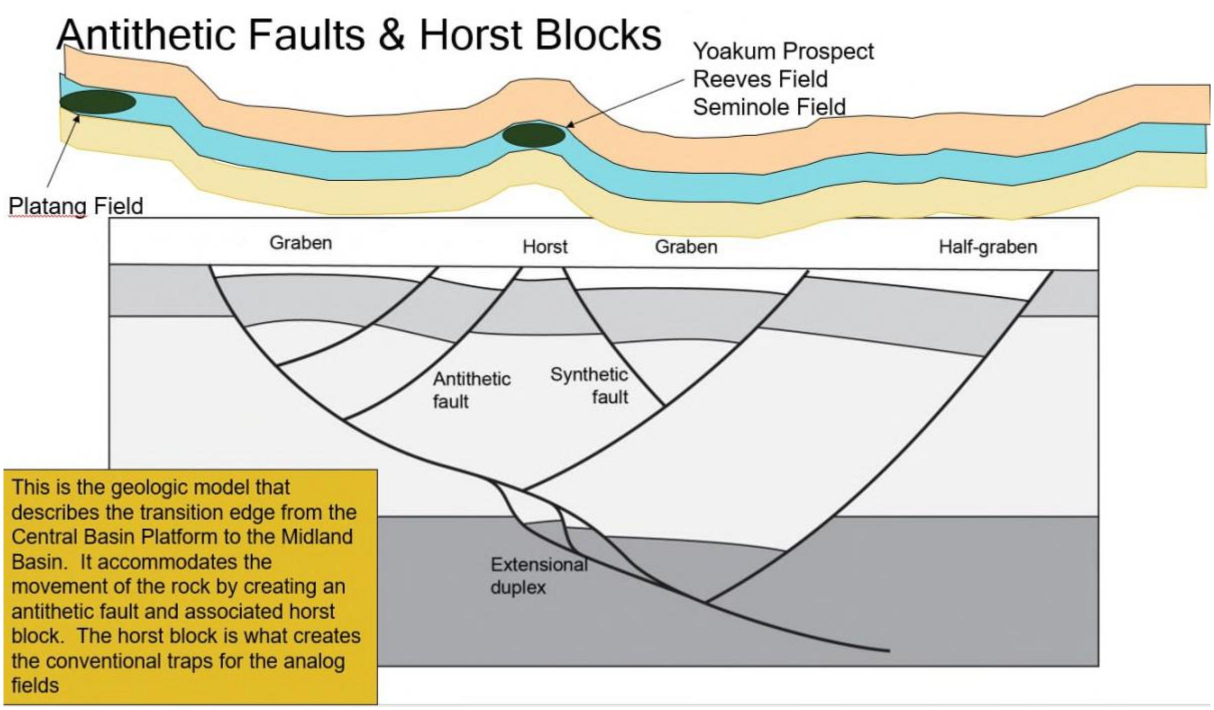
Evaluation of the Red Tail area by geologic mapping and cross sections shows an isolated structural high throughout the geologic column which accounts for the highly productive vertical Wolfcamp wells mentioned above, and further suggests a structure below the Spraberry horizon.

Our Yoakum prospect similarly has a structure that affects the entire geologic column supported by geologic mapping and 2-D seismic. Based on the seismic we leased several thousand acres over this feature. Multiple horizons are possible from the San Andres to the Spraberry, and the Wolfcamp.

GEOLOGIC MAPPING

Geologic mapping with the seismic included shows a structural high at all levels giving us confidence that we may have multiple target formations on this structure. It may be an extension of the Reeves Field with a slight westward offset due to tectonic activity.

In a regional sense, the large fields to the west are on top of the Central Basin Platform while the Seminole, Reeves, and Tokio Fields, as well as our prospect, are just off the shelf edge on small structures set up by the down-dropping Midland Basin. Multiple cross-sections across the area in both strike and dip directions show the structural features. A structure map on the San Andres shows a fully closed structure under our prospect and the Reeves field, while the Red Tail high only has a minor closure.



YOAKUM-TERRY PROJECT SUMMARY

The Yoakum-Terry Project is another of King's homegrown prospects and is ready to drill. The leases have been taken and the science is finished. Additional opportunities exist in the region if this test is successful, and King has already begun discussions with other operators researching the same area.

Estimated Source and Use of Proceeds for $100,000,000 Offering

Source of Funds	Amount	Percentage
Managing General Partner's Contribution for the Managing General Partner Interest	Services	-
Partner's Capital Contributions	$100,000,000	100.00%
Totals:	$100,000,000	100.00%

All figures used are estimates and are subject to adjustment.

	Amount	% of Total
Acquisition of Oil & Gas Mineral Acreage + Drilling and Development Costs of Proposed New Wells	$85,000,000	85.00%
Offering and Marketing Costs	$15,000,000	15.00%
500 Class A Units @ $200,000 / Unit	$100,000,000	100.00%

The Partnership will use the proceeds from this Offering to cover offering expenses, certain pre-formation expenses, renumeration, and possible commissions; however, the primary use of the proceeds will be used to drill and develop commercial oil and gas wells within the boundaries of the disclosed oilfield prospects. Further, King will receive, as part of its services as Manager under the Management and Maintenance Agreement, a Contribution Margin of up to 20% of the cost of drilling and development of the proposed wells and the acquisition of oil and gas properties. The Contribution Margin allows King to pay operational costs in performing the Management Services, including general and administrative and overhead costs, and may result in profits to King. See "*Description of the Management and Maintenance Agreement*." Along with drilling and development of the Wells, King anticipates utilizing the prospects 3D seismic studies along with additional science to optimize well and lateral placement. Any expenses of such drilling, studies and other pre-formation expenses of the Partnership that are paid by King or an Affiliate of King shall be reimbursed by the Partnership

All costs of this Offering will be paid by the Partnership, except that each Investor Partner will be responsible for the costs associated with their own advisors, including without limitation, their own attorneys and tax advisors. The Partnership will pay offering expenses, regardless of whether or not any Class A Units are sold, including but not limited to the costs of organizing the Partnership and the Managing Partner, fees for legal counsel and accountants, securities filing fees, costs to prepare sales materials, organizational fees and other expenses incurred in connection with this Offering, as well as fees to be paid to King and its Affiliates for geological, engineering, land work and other services.

The Partnership will also be responsible for paying all broker-dealer compensation, should the services of a broker-dealer be engaged, and other marketing expenses associated with the Offering. KOP III GP LLC will manage and address the sales, compliance and administrative aspects of the Offering. The

Partnership may elect to engage one or more wholesalers that will work with various registered broker-dealers in connection with the Offering. Likewise, King may engage other broker-dealers in connection with this Offering and as a result, may pay a sales commission to any such broker-dealers.

If this Offering is fully subscribed, then the Partnership intends to utilize the proceeds in accordance with the above chart, with the Managing Partner having discretion, as set forth in the Partnership Agreement, to re-allocate proceeds as necessary for the development of the Partnership Assets. In the event this Offering is not fully subscribed, then either (a) the Partnership will acquire a reduced percentage of the Working Interest in the Partnership Assets or a smaller number of acres, (b) the Partnership will not drill all of the contemplated wells set forth in the Use of Proceeds above, and/or (c) the Class A Unit Holders as a whole will likely receive diminished distributions from the Partnership.

The Managing Partner will have the right to call for additional capital from the Investor Partners under the Partnership Agreement to further drill and complete oil and gas wells on the Partnership Assets, rework or recomplete any of the wells on the Partnership Assets or acquire additional oil and gas leases in other areas and explore and develop such areas through drilling oil and gas wells.

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Risk factors

KING OPERATING PARTNERS III, LP UNITS ARE HIGHLY RISKY. PROSPECTIVE PURCHASERS SHOULD CONSIDER THE FOLLOWING FACTORS, AMONG OTHERS, BEFORE SUBSCRIBING, AND ARE URGED TO CONSULT THEIR OWN FINANCIAL, TAX AND LEGAL COUNSEL BEFORE DECIDING TO PURCHASE.

The Partnership may incur indebtedness in connection with the business plans of the Partnership. Higher levels of indebtedness make the Partnership more vulnerable to economic downturns and adverse developments in the Partnership's business. We plan for the Partnership to potentially incur indebtedness to support its exploration and development of oil and gas projects, as well as fund operational expenses of the Partnership. As a result of this indebtedness, the Partnership may need to use a portion of the Partnership's anticipated cash flow to pay principal, interest and fees to debt providers which may include net profits interests and Overriding Royalty Interests, which will reduce the amount the Partnership will have available to finance the Partnership's operations and other business activities and could limit the Partnership's flexibility in planning for or reacting to changes in Partnership's business and the industry in which the Partnership operates. The amount of the Partnership's debt may also cause the Partnership to be more vulnerable to economic downturns and adverse developments in the Partnership's business, including loan default, foreclosure, insolvency, and the Partnership's bankruptcy.

The Partnership's ability to meet its debt obligations and other expenses will depend on the Partnership's future performance, which will be affected by financial, business, economic, regulatory, and other factors, many of which the Partnership, the Managing Partner, and King will be unable to control. If the Partnership's cash flow is not sufficient to service the Partnership's debt, the Partnership may be required to refinance debt or sell assets, including the Partnership Assets, on terms that Partners may not find attractive if it may be done at all. Further, the Partnership's failure to comply with the financial and other restrictive covenants relating to the Partnership's indebtedness could result in a default under that indebtedness, which could adversely affect the Partnership's business including foreclosure, financial condition, and results of operations.

Should the Partnership seek to incur indebtedness, the process of incurring such indebtedness would be to acquire a Reserve Based Loan / Credit Facility, "RBL". The assets of the Partnership would collateralize the loan. The loan would be non-recourse for the Investor Partners. The loan proceeds would be deployed as additional capital to drill, test, complete, and stimulate additional wells or would be used to acquire additional Leasehold Assets.

An increase in interest rates would increase the cost of servicing the Partnership's indebtedness and could reduce the Partnership's profitability. Indebtedness the Partnership may incur under a credit facility may bear interest at variable rates. As a result, an increase in interest rates, whether because of an increase in market interest rates or an Indebtedness the Partnership may incur under a credit facility may bear interest at variable rates. As a result, an increase in interest rates, whether because of an increase in market interest rates or an increase in the Partnership's own cost of borrowing, would increase the cost of servicing the Partnership's indebtedness, which could adversely affect the Partnership's cash flow and financial condition. Furthermore, any such increase could materially reduce the availability of debt financing, which may result in increases in the interest rates and borrowing spreads at which lenders are willing to make future debt financing available to the Partnership. The increases could adversely affect the Partnership's business and financial condition if the Partnership does not have access to additional borrowings on terms that the Partnership believes to be commercially reasonable. The impact of such an increase would be more significant than it would be for some other companies because of the Partnership's anticipated substantial indebtedness, which could adversely affect the Partnership's ability to compete.

Risks Pertaining to Oil and Gas Investments

Speculative Nature of Oil and Gas Activities. Oil and gas drilling is a highly speculative activity marked by many dry holes and mechanical problems. Even completed wells may never show a Profit. Poor weather and equipment shortages can also cause delays and added expenses. The Manager will attempt to mitigate these risks by employing recognized drilling, completion, and stimulation prognosis procedures and practices.

Prices of Oil and Gas are Historically Quite Unstable. Global economic conditions, political conditions, and energy conservation have created unstable prices for the purchase of oil and gas. Further, speculative trading on commodity exchanges can cause wild gyrations in pricing. The prices for U.S. oil and gas production can and have materially declined at times in the pricing cycles, which would negatively impact Profits to the Partnership. Moreover, since operating wells having fixed monthly costs, the percentage decline in Net Revenues may well exceed the corresponding percentage decline in oil and gas prices. The prices the Partnership receives for oil and natural gas heavily influences revenue, profitability, cash flow available for capital expenditures and access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices received for production, and the levels of production, depend on numerous factors. These factors include the following:

- worldwide and regional economic conditions impacting the global supply and demand for oil and natural gas;

- the prices and availability of competitors' supplies of oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC, and state-controlled oil companies relating to oil price and production controls;
- the price and quantity of foreign imports;
- the impact of U.S. dollar exchange rates on oil and natural gas prices;
- domestic and foreign governmental regulations and taxes;
- speculative trading of oil and natural gas futures contracts;
- the availability, proximity and capacity of gathering and transportation systems for natural gas;
- the availability of refining capacity;
- the prices and availability of alternative fuel sources;
- weather conditions and natural disasters;
- political conditions in or affecting oil and natural gas producing regions, including the Middle East and South America;
- the continued threat of terrorism and the impact of military action and civil unrest;
- public pressure on, and legislative and regulatory interest within, federal, state, and local governments to stop, significantly limit or regulate hydraulic fracturing activities;
- the level of global oil and natural gas inventories and exploration and production activity;
- the impact of energy conservation efforts;
- technological advances affecting energy consumption; and
- overall worldwide economic conditions.

Lower oil and natural gas prices will reduce the Partnership cash flows, borrowing ability the present value of estimated reserves and ability to make distributions. Oil and gas leases that are not held by production could be at risk of expiring in low price environments. Lower oil and natural gas prices may also reduce the amount of oil and natural gas that the Partnership can produce economically and may affect estimated proved reserves. The present value of future Net Revenues from estimated proved reserves will not necessarily be the same as the current market value of estimated oil and gas reserves.

The Russian invasion of Ukraine increases pricing risks for oil and natural gas and the potential volatility of the Partnership Wells' net revenue. On February 24, 2022, Russia attacked Ukraine on multiple fronts. Since the commencement of the Ukraine war and the imposition of sanctions the prices of natural gas and oil have spiked in response to the potential unavailability of Russian natural gas and oil. In response, importers of natural gas and oil have been seeking to alternative sources and increased production elsewhere. Further, other importers, such as Germany, have been seeking to reduce their demand, particularly, for natural gas and have been reopening coal power plants. These political and war risks have caused uncertainty in anticipating price levels and price changes in natural gas and oil and thus increased the uncertainty of the anticipated revenue from the Partnership Wells. Subscribers should anticipate high volatility in the price of natural gas and oil obtained by the Operator for the Partnership Wells with corresponding earnings volatility for the Partnership.

Oil and Gas are Priced Globally in U.S. Dollars, thus Creating Currency Risk. The U.S. dollar is the primary reserve currency worldwide and the global currency for oil and gas. This means that the stronger the U.S. dollar, the lower the oil and gas prices. There is a direct inverse correlation. Consequently, while the Partnership does not intend to acquire assets outside of the United States, it will still be indirectly subject to currency risks derived from a strong U.S. dollar. For example, relatively speaking the low prices U.S. dollar prices of oil and gas production in other countries may be offset by the weakening of the local currency. But low prices for domestic U.S. oil and gas production will not be able to be offset by a decline in the local currency compared to the reserve currency because the U.S. dollar is the reserve currency. Purchase and Sale Agreements with regard to the sale of oil and gas will be negotiated with well-known and reputable First Purchasers and designate payments in U.S. Dollars.

Oil and Gas Well Drilling and Production Risks – Operations. All drilling and rework activities involve a high degree of risk with exploratory wells presenting a higher degree of risk than developmental wells. Oil and gas drilling hazards include unusual or unexpected formations, pressures or other conditions, blow-outs, fires, failure of equipment, down hole collapses, and other hazards (whether similar or dissimilar to those enumerated). The Management and Maintenance Agreement specifies that the Partnership be named as an additional insured for King Operating Corporation's general liability insurance coverage in the amount of twenty million dollars ($20,000,000) and workman's compensation insurance in the amount of one million dollars ($1,000,000).

Oil and Gas Well Drilling and Production Risks – Equipment and Materials. Drilling and completion timing will depend on the timely delivery of the drilling equipment, including the rig and other equipment, and the materials needed to conduct drilling activity. If the necessary equipment and materials are not on site, the Operator's drilling and completion activities will be delayed. Such delays could materially affect the timing of any returns on investment in several ways. First, the delays could increase costs of operations as employees and equipment rentals may need to be paid while waiting on site. Second, such delays could cause a delay in investors receiving returns on investment, thus lowering the effective return on investment. Third, such delays could affect the tax year timing of deductibility of intangible drilling costs, especially if the drilling operations are not commenced by the deadline required under tax law. Fourth, such delays could affect oil and gas lease terms and delay rental payments.

Drilling for oil and natural gas is a speculative activity and involves numerous risks and substantial and uncertain costs that could adversely affect us. The Partnership's success could depend, in part, on the success of a drilling program. There is no way to predict in advance of drilling and testing whether any prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. The use of seismic data and other technologies and the study of producing fields in the same area will not enable the Partnership to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. The Partnership cannot assure you that the analogies drawn from available data from other wells, more fully explored prospects or producing fields will be applicable to current drilling prospects.

The budgeted costs of planning, drilling, completing, and operating wells are often exceeded, and such costs can increase significantly due to various complications that may arise during the drilling and operating processes. The Partnership may incur significant geological and geophysical (seismic) costs before the commencement of drilling operations – expenses incurred whether a well eventually produces commercial oil and gas quantities or is drilled at all. Exploration wells endure a much greater risk of loss than development wells. The analogies drawn from available data from other wells, more fully explored locations or producing fields may not be applicable to current drilling locations. If actual drilling and development costs are significantly more than the current estimated costs, the Partnership may not be able to continue operations as proposed and could be forced to modify drilling plans accordingly. Drilling for oil and natural gas involves numerous risks, including the risk that no commercially productive natural gas or oil reservoirs will be discovered. The cost of drilling, completing, and operating wells is substantial and uncertain, and drilling operations may be curtailed, delayed, or canceled because of a variety of factors beyond the Partnership's control, including:

- unexpected or adverse drilling conditions;
- elevated pressure or irregularities in geologic formations;
- equipment failures or accidents;
- adverse weather conditions;
- compliance with governmental requirements; and
- shortages or delays in the availability of drilling rigs, crews, and equipment.

If the Partnership decides to drill a certain location, there is a risk that (i) no commercially productive oil or natural gas reservoirs will be found or produced, (ii) may drill or participate in new wells that are not productive or drill wells that are productive, but that do not produce sufficient Net Revenues to return a Profit after drilling, operating and other costs. A productive well may become uneconomical if water or other deleterious substances are encountered which impair or prevent the production of oil and/ or natural gas from the well. The Partnership's overall drilling success rate or drilling success rate for activity within a particular project area may decline. Unsuccessful drilling activities could result in a significant decline in production and revenues and materially harm operations and financial condition by reducing available cash and resources. There is no way to predict in advance of drilling and testing whether any location will yield oil or natural gas in sufficient quantities to recover exploration, drilling or completion costs or to be economically viable. Even if enough oil or natural gas exist, the Partnership may damage the potentially productive hydrocarbon-bearing formation or experience mechanical difficulties while drilling or completing the well, resulting in a reduction in production and reserves from the well or abandonment of the well.

The Partnership is subject to contingencies arising from interpretations of federal and state laws and regulations affecting the oil and gas industry. The Partnership is subject to various possible contingencies that arise primarily from interpretation of federal and state laws and regulations affecting the oil and natural gas industry. Such contingencies include differing interpretations as to the prices at which oil and natural gas sales may be made, the prices at which royalty owners may be paid for production from their leases, environmental issues, and other matters. Although the Partnership management intends to comply with the various laws and regulations, administrative rulings, and interpretations thereof, adjustments could be required as new interpretations and regulations are issued. In addition, environmental matters are subject to regulation by various federal and state agencies. The Manager, King Operating Corporation, has established a twenty-seven year history as a prudent Texas- licensed oil and gas operator (RRC #465296) with the Texas Railroad Commission.

The Partnership may rely on successful exploration, development, and acquisitions to maintain reserves and revenue in the future. In general, the volume of production from oil and natural gas properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Except to the extent that the Partnership conducts successful exploration and development activities or acquires properties containing proved reserves, or both, proved reserves will decline as reserves are produced. The Partnership future oil and natural gas production is, therefore, highly dependent on the Partnership's level of success in finding or acquiring additional reserves. Additionally, the business of exploring for, developing, or acquiring reserves is capital intensive. Recovery in reserves, particularly undeveloped reserves, will require significant additional capital expenditures and successful drilling operations. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable. The Partnership's ability to make the necessary capital investment to maintain or expand its asset base of oil and natural gas reserves would be impaired. In addition, the Partnership is dependent on finding partners for exploratory activity. To the extent that others in the industry do not have the financial resources or choose not to participate in exploration activities, the Partnership will be adversely affected.

The Partnership may have accidents, equipment failures or mechanical problems while drilling or completing wells or in production activities, which could adversely affect its business. While the Partnership is drilling and completing wells or involved in production activities, accidents or experience equipment failures or mechanical problems in a well may occur that cause the Partnership to be unable to drill and complete the well or to continue to produce the well according to plan. The Partnership may also damage a potentially hydrocarbon-bearing formation during drilling and completion operations. Such incidents may result in a reduction of production and reserves from the well or in abandonment of the well.

The Partnership's estimated reserves are based on many assumptions that may prove inaccurate. Any significant inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of the Partnership reserves. The Partnership intends to obtain periodic reserve estimates covering its properties. No one can measure underground accumulations of oil and natural gas in an exact way. Oil and natural gas reserve engineering requires subjective estimates of underground accumulations of oil and natural gas and assumptions concerning future oil and natural gas prices, production levels, and operating and development costs. As a result, estimated quantities of proved reserves and projections of future production rates and the timing of development expenditures may prove to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of the Partnership's reserves which could adversely affect business, results of operations, financial condition, and the Partnership's ability to make cash distributions to shareholders.

To prepare estimates, the Partnership must project production rates and the timing of development expenditures and analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes, and availability of funds. Although the reserve information contained herein is reviewed by independent reserve engineers, estimates of oil and natural gas reserves are inherently imprecise.

Actual future prices and costs may differ materially from those used in the net present value estimate, and future net present value estimates using then current prices and costs may be significantly less than the current estimate. In addition, the 10% discount factor the Partnership used when calculating discounted future net cash flows for reporting requirements in compliance with the FASB in Accounting Standards

Codification, which is referred to as ASC, 932 may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with the Partnership or the oil and natural gas industry in general.

Seismic studies do not guarantee that hydrocarbons are present or, if present, will produce in economic quantities. The Partnership may use seismic studies to assist with assessing prospective drilling opportunities on current properties, as well as on properties that the Partnership may acquire. Such seismic studies are merely an interpretive tool and do not necessarily guarantee that hydrocarbons are present or if present will produce in economic quantities.

The Partnership will not be the operator on its drilling locations, and, therefore, will not be able to control the timing of exploration or development efforts, associated costs, or the rate of production of any non-operated assets. The Partnership expects not be the operator on its initial oil and gas properties. As the Partnership carries out its oil and gas property acquisitions and development, it may enter arrangements with respect to existing or future drilling locations that result in a greater proportion of locations being operated by others. As a result, the Partnership may have limited ability to exercise influence over the operations of the drilling locations operated by its partners. Dependence on the operator could prevent the Partnership from realizing target returns for those locations. The success and timing of exploration and development activities operated by its partners will depend on several factors that will be largely outside of the Partnership's control, including:

- the timing and amount of capital expenditures;
- the operator's expertise and financial resources;
- approval of other participants in drilling wells;
- selection of technology; and
- the rate of production of reserves, if any.

This limited ability to exercise control over the operations of some of drilling locations may cause a material adverse effect on results of operations and financial condition.

Most of the Partnership's growth is anticipated to come through acquisitions, and failure to identify or complete future acquisitions successfully could reduce earnings and hamper growth. The Partnership may be unable to identify properties for acquisition or to make acquisitions on terms that are economically acceptable. There is intense competition for acquisition opportunities in the oil and gas industry. Competition for acquisitions may increase the cost of, or cause the Partnership to refrain from, completing acquisitions. Its ability to grow through acquisitions will require continued investment in operations, financial and management information systems and to attract, retain, motivate, and effectively manage employees. The inability to manage the integration of the merger or future acquisitions effectively could reduce focus on subsequent acquisitions and current operations and could negatively impact results of operations and growth potential. The Partnership's financial position, results of operations and cash flows may fluctuate significantly from period to period, because of the completion of significant acquisitions during periods. If the Partnership is not successful in identifying or acquiring any material property interests, earnings could be reduced, and growth could be restricted.

The Partnership may engage in bidding and negotiating to complete successful acquisitions. It may be required to alter or increase substantially its capitalization to finance these acquisitions using cash on hand, the issuance of equity securities, the sale of production payments, the sale of nonstrategic assets, the borrowing of funds or otherwise. Furthermore, the Partnership's decision to acquire properties that are substantially different in operating or geologic characteristics or geographic locations from areas with which the Partnership employees are familiar may impact productivity in such areas.

The Partnership may purchase oil and natural gas properties with liabilities or risks that the Partnership did not know about or that the Partnership did not assess correctly, and, as a result, could be subject to liabilities that could adversely affect results of operations. Before acquiring oil and natural gas properties, the Partnership estimates the reserves, future oil and natural gas prices, Operating Costs, potential environmental liabilities, and other factors relating to the properties. However, such review involves many assumptions and estimates, and their accuracy is inherently uncertain. As a result, the Partnership may not discover all existing or potential problems associated with the properties being purchased. This is a special risk for oil and gas properties under bankruptcy court supervision. The Partnership may not become sufficiently familiar with the properties to assess fully its deficiencies and capabilities. The Partnership does not generally perform inspections on every well or property, and therefore may not be able to observe mechanical and environmental problems even when an inspection is conducted. The seller may not be willing or financially able to give contractual protection against any identified problems, and the Partnership may decide to assume environmental and other liabilities in connection with properties acquired. Indeed, properties acquired through bankruptcy court processes will be acquired as is with no protections against potential problems other than liens. If the Partnership acquires properties with risks or liabilities that were unknown or not assessed correctly, financial condition, results of operations and cash flows could be adversely affected as claims are settled and cleanup costs related to these liabilities are incurred. Given the limited due diligence and time opportunities in assessing properties under the supervision of a bankruptcy court, these risks may be increased when acquiring properties from bankrupt sellers.

The marketability of the Partnership's production will be dependent upon oil and natural gas gathering and transportation facilities owned and operated by third parties, and the unavailability of satisfactory oil and natural gas transportation arrangements will have a material adverse effect on revenue. The unavailability of satisfactory oil and natural gas transportation arrangements may hinder the Partnership's access to oil and natural gas markets or delay production from wells. The availability of a ready market for the

Partnership’s oil and natural gas production depends on several factors, including the demand for, and supply of, oil and natural gas and the proximity of estimated reserves to pipelines and terminal facilities. The Partnership’s ability to market its production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Failure to obtain these services on acceptable terms could materially harm the Partnership’s business. As a result, the Partnership may be required to shut-in wells for lack of a market or because of inadequacy or unavailability of pipeline or gathering system capacity. If that were to occur, the Partnership would be unable to realize revenue from those wells until production arrangements were made to deliver production to market. Furthermore, if the Partnership were required to shut-in wells the Partnership might also be obligated to pay shut-in royalties to certain mineral interest owners to maintain the Partnership’s leases. The disruption of third-party facilities due to maintenance and/ or weather could negatively impact the Partnership’s ability to market and deliver the Partnership’s products. These third parties’ control when or if such facilities are restored and what prices will be charged. Federal and state regulation of oil and natural gas production and transportation, tax and energy policies, changes in supply and demand, pipeline pressures, damage to or destruction of pipelines and general economic conditions could adversely affect the Partnership’s ability to produce, gather and transport oil and natural gas.

Hedging transactions or the lack thereof, may limit the Partnership’s potential gains and could result in financial losses. To manage the Partnership’s exposure to price risk, from time to time, the Partnership may enter hedging arrangements with respect to a portion of future production. The goal of these hedges is to lock in a range of prices to mitigate price volatility and increase the predictability of cash flows. These transactions limit potential gains if oil or natural gas prices rise above the maximum price established by the call option and may offer protection if prices fall below the minimum price established by the put option only to the extent of the volumes, then hedged.

In addition, hedging transactions may expose the Partnership to the risk of financial loss in certain other circumstances, including instances in which production is less than expected or the counterparties to put and call option contracts fail to perform under the contracts.

Disruptions in the financial markets could lead to sudden changes in a counterparty’s liquidity, which could impair its ability to perform under the terms of the contracts. The Partnership is unable to predict sudden changes in a counterparty’s creditworthiness or ability to perform under contracts. Even if the Partnership does accurately predict sudden changes, ability to mitigate that risk may be limited depending upon market conditions.

Furthermore, there may be times when the Partnership may have not hedge production when, in retrospect, it would have been advisable to do so. Decisions as to whether and what production volumes to hedge are difficult and depend on market conditions and forecast of future production and oil and gas prices, and the Partnership may not always employ the optimal hedging strategy. The Partnership may employ hedging strategies in the future that differ from those used in the past, and neither the continued application of current strategies nor use of different hedging strategies may be successful.

On April 27, 2012, the SEC and the CFTC issued final rules defining “Swap Dealer,” “Security-Based Swap Dealer,” “Major Swap Participant,” “Major Security-Based Swap Participant” and “Eligible Contract Participant.” These definitions have end-user exceptions. To the extent that the Partnership uses swaps to hedge its risks, it will attempt to comply with the end-user and size exceptions from these definitions. If the Partnership is unsuccessful in qualifying for such exceptions in any swap transaction, it may be required to maintain substantial financial reserves relating to its swap transactions and may be required to register with the SEC or CFTC as a swap dealer or participant.

Unless the Partnership replaces its oil and natural gas estimated reserves, its estimated reserves and production will decline, which would adversely affect its business, financial condition, and results of operations. Once the Partnership acquires oil and gas properties, it must conduct successful development, exploitation and exploration activities or acquire properties containing estimated proved reserves, else its estimated proved reserves will decline as those reserves are produced. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Estimated future oil and natural gas reserves and production, and therefore cash flows and income, are highly dependent on the Partnership’s success in efficiently developing and exploiting current estimated reserves and economically finding or acquiring additional estimated recoverable reserves. The Partnership may not be able to develop, exploit, find or acquire additional reserves to replace current and future production at acceptable costs. If the Partnership is unable to replace reserves as they are produced, the value of estimated reserves will decrease, and the business, financial condition and results of operations would be adversely affected.

The unavailability or high cost of additional drilling rigs, equipment, supplies, personnel, and oilfield services could adversely affect the Partnership’s ability to execute exploration and development plans within the established budget and on a timely basis. Shortages or the high cost of drilling rigs, equipment, supplies, personnel, or oilfield services could delay or adversely affect development and exploration operations or cause the Partnership to incur significant expenditures that are not provided for in its capital budget, which could have a material adverse effect on the business, financial condition, or results of operations.

Market conditions or operational impediments may hinder the Partnership’s access to oil and natural gas markets or delay production. Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder the

Partnership’s access to oil and natural gas markets or delay production. The availability of a ready market for oil and natural gas production depends on several factors, including the demand for and supply of oil and natural gas and the proximity of estimated reserves to pipelines and terminal facilities. The Partnership’s ability to market production depends, in substantial part, on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. The Partnership’s failure to obtain such services on acceptable terms could materially harm the business. The Partnership may be required to shut in wells due to lack of a market or inadequacy or unavailability of crude oil or natural gas pipelines or gathering system capacity. If production becomes shut-in for any of these or other reasons, the Partnership would be unable to realize revenue from those wells until other arrangements were made to deliver the products to market.

The Partnership may incur substantial losses and be subject to substantial liability claims because of oil and natural gas operations. Additionally, the Partnership may not be insured for, or current insurance may be inadequate to protect against, these risks. The Partnership is not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect the business, financial condition, or results of operations. The Partnership’s oil and natural gas exploration and production activities are subject to all the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas, or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oilfield drilling and service tools and casing collapse;
- personal injuries, fires, and death; and
- natural disasters.

Any of these risks could adversely affect the Partnership’s ability to conduct operations or result in substantial losses because of:

- injury or loss of life;
- damage to and destruction of property, natural resources, and equipment;
- pollution and other environmental damage;
- regulatory investigations and penalties;
- suspension of operations; and
- repair and remediation costs.

The Management and Maintenance Agreement specifies that the Partnership be named as an additional insured for King Operating Corporation’s general liability insurance coverage in the amount of twenty million dollars ($20,000,000) and workman’s compensation insurance in the amount of one million dollars ($1,000,000).

Wells that the Partnership decides to participate in may not yield oil or natural gas in commercially viable quantities. There is no way to predict in advance of drilling and testing whether any location will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. The use of technologies and the study of producing fields in the same area will not enable the Partnership to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in sufficient quantities to be economically viable. Even if enough oil or natural gas exist, the Partnership may damage the potentially productive hydrocarbon bearing formation or experience mechanical difficulties while drilling or completing the well, resulting in a reduction in production from the well or abandonment of the well. If the Partnership drills additional wells identified as dry holes in current and future drilling locations, the Partnership's drilling success rate may decline and materially harm its business. The Partnership cannot assure you that the analogies drawn from available data from other wells, more fully explored locations or producing fields will be applicable to drilling locations. In sum, the cost of drilling, completing, and operating any well is often uncertain, and new wells may not be productive.

The Partnership is subject to government regulation and liability, including complex environmental laws, which could require significant expenditures. The exploration, development, production and sale of oil and natural gas in the United States are subject to many federal, state, and local laws, rules, and regulations, including complex environmental laws and regulations. Matters subject to regulation include discharge permits, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties, taxation or environmental matters and health and safety criteria addressing worker protection. Under these laws and regulations, the Partnership may be required to make large expenditures that could materially adversely affect its financial condition, results of operations and cash flows. These expenditures could include payments for:

- personal injuries;
- property damage;
- containment and cleanup of oil and other spills;
- the management and disposal of hazardous materials;
- remediation and cleanup costs; and
- other environmental damages.

The Partnership does not believe that full insurance coverage for all potential damages is available at a reasonable cost. Failure to comply with these laws and regulations also may result in the suspension or termination of operations and subject the Partnership to administrative, civil, and criminal penalties, injunctive relief and/ or the imposition of investigatory or other remedial obligations. Laws, rules, and regulations protecting the environment have changed frequently and the changes often include increasingly stringent requirements. These laws, rules and regulations may impose liability on the

Partnership for environmental damage and disposal of hazardous materials even without negligent or at fault. The Partnership may also be found to be liable for the conduct of others or for acts that complied with applicable laws, rules, or regulations at the time those acts were performed. These laws, rules and regulations are interpreted and enforced by numerous federal and state agencies. In addition, private parties, including the owners of properties upon which the Partnership's wells are drilled or the owners of properties adjacent to or near those properties may also pursue legal actions based on alleged non-compliance with certain of these laws, rules, and regulations.

Governmental regulation and liability for environmental matters may adversely affect the Partnership's business, financial condition, and results of operations. All the Partnership's intended acquisitions, operations and participations are onshore in the United States. Oil and natural gas operations are subject to various federal, state, and local government regulations that may change from time to time. Matters subject to regulation include:

- well locations;
- drilling and completion operations and methods;
- production amounts limited to below capacity;
- price controls;
- surface use and restoration;
- fluid and waste discharge from drilling operations;
- plugging and abandonment of wells (including the posting of bonds);
- well spacing;
- unitization and pooling of properties;
- taxation;
- marketing, transporting, and reporting production;
- valuation and payment of royalties;
- air emissions;
- groundwater uses and protection;
- the construction and operation of underground injection wells to dispose of produced saltwater and other non-hazardous oilfield wastes; and
- the construction and operation of surface pits to contain drilling muds and other non-hazardous fluids associated with drilling operations.

Federal, state, and local laws may require removal or remediation of previously disposed wastes, including wastes disposed of or released by the Partnership or prior owners or operators in accordance with current laws or otherwise, to suspend or cease operations at contaminated areas, or to perform remedial well plugging operations or response actions to reduce the risk of future contamination. Federal laws, including the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, and analogous state laws impose joint and several liability, without regard to fault or legality of the original conduct, on classes of persons who are considered responsible for releases of a hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred, and persons that disposed of or arranged for the disposal of hazardous substances at the site. CERCLA and analogous state laws also authorize the U.S. Environmental Protection Agency, or EPA, state environmental agencies and, in some cases, third parties to take action to prevent or respond to threats to human health or the environment and to seek to recover from responsible classes of persons the costs of such actions. Other environmental laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. In addition, the Partnership may be subject to claims alleging personal injury or property damage because of alleged exposure to hazardous substances such as oil and natural gas related products. As a result, the Partnership may incur substantial liabilities to third parties or governmental entities and may be required to incur substantial remediation costs.

Federal, state, and local laws and regulations relating primarily to the protection of human health and the environment apply to the development, production, handling, storage, transportation, and disposal of oil and natural gas, by-products thereof, and other substances and materials produced or used in connection with oil and natural gas operations. In addition, the Partnership may be liable for environmental damages caused by previous owners of property the Partnership purchase or lease. The Partnership is also subject to changing and extensive tax laws, the effects of which cannot be predicted. Compliance with existing, new, or modified laws and regulations could have a material adverse effect on the Partnership's business, financial condition, and results of operations.

Various state governments and regional organizations comprising state governments are considering enacting new legislation and promulgating new regulations governing or restricting the emission of greenhouse gases from stationary sources such as the Partnership's equipment and operations. Legislative and regulatory proposals for restricting greenhouse gas emissions or otherwise addressing climate change could require the Partnership to incur additional Operating Costs and could adversely affect demand for the natural gas and oil sold. The potential increase in Operating Costs could include new or increased costs to obtain permits, operate and maintain current equipment and facilities, install new emission controls on all current equipment and facilities, acquire allowances to authorize greenhouse gas emissions, pay taxes related to greenhouse gas emissions and administer and manage a greenhouse gas emissions program. Moreover, incentives to conserve energy or use alternative energy sources could reduce demand for natural gas and oil.

The Partnership may incur losses or costs because of title deficiencies in the properties in which the Partnership invests. If an examination of the title history of a property that the Partnership purchased reveals an oil and natural gas lease has been purchased in error from a person who is not the owner of the mineral interest desired, the Partnership's interest would be worthless. In such an instance, the amount paid for such oil and natural gas lease as well as any royalties paid pursuant to the terms of the lease prior to the discovery of the title defect would be lost.

Purchasers of production from oil and gas leases require “division orders” and “division order title opinions” from counsel before releasing funds to persons due payments from the purchase of oil and/ or gas from a Partnership well. These documents tell the oil and gas purchaser who should be paid what. The division orders and accompanying title opinions can cost a substantial amount of money to prepare. Thus, paying to prepare a division order and title opinion before a well is tested will be a waste of money if the well proves to be dry. Consequently, the Managing General Partner anticipates that the Operator will wait until the well is tested to seek a final title opinion and division order. But the Managing General Partner anticipates that the Operator will obtain a preliminary title opinion before commencing operations and completed a preliminary title review of the spacing unit within which the proposed oil or gas well is to be drilled to ensure there are no obvious deficiencies in title to the well. Frequently, because of such examinations, certain curative work must be done to correct deficiencies in the marketability of the title, and such curative work entails expense. Failure to cure any title defects may adversely impact the Partnership’s ability in the future to increase production and reserves. In the future, the Partnership may suffer a monetary loss from title defects or title failure. Additionally, unproved and unevaluated acreage has greater risk of title defects than developed acreage. 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 which could adversely affect the Partnership’s financial condition, results of operations and cash flows.

Before well completion, the leasehold interests for Partnership oil and gas properties may be held by the Operator or its designee, as nominee, to facilitate operations and the acquisition of properties until the relevant well is tested. Unrecorded assignments will show that the nominee holds the leasehold interest for the benefit of the Partnership and this interest is not subject to the record owner’s liabilities; however, such unrecorded assignments may not fully protect the Partnership from the claims by the Operator’s creditors. Working Interest participants must rely on the Operator to use its best judgment to obtain appropriate title to the Partnership’s leasehold interest. The Managing General Partner will take such steps as it deems necessary with the Operator to assure that title to its leasehold interests suits the Partnership’s purposes. The Managing General Partner is free, however, to use its own judgment in waiving title requirements and will not be liable for any failure of title to leasehold interests transferred to or owned by the Partnership. Further, neither the Managing General Partner nor its Affiliates will make any warranties as the validity or merchantability of titles to any leasehold interests to be acquired by the Partnership.

Further, any title defect may result in a change of the Partnership’s Working Interest or Net Revenue Interest relating to a Partnership Oil and Gas Property. If the Partnership is unable to recover the amounts paid to third parties for the pre-adjusted Working Interest or Net Revenue Partnership Unit, the amount paid for the adjusted portion may be deemed a loss by the Partnership.

Competition in the oil and natural gas industry is intense making it more difficult for the Partnership to acquire properties, market natural gas and secure trained personnel. The Partnership's ability to acquire additional prospects and to find and develop reserves in the future will depend on the ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment for acquiring properties, marketing oil and natural gas and securing trained personnel. Also, there is substantial competition for capital available for investment in the oil and natural gas industry. Many competitors possess and employ financial, technical and personnel resources substantially greater than the Partnership's. Those companies may be able to pay more for productive oil and natural gas properties and exploratory prospects and to evaluate, bid for and purchase a greater number of properties and prospects than the Partnership's financial or personnel resources permit. In addition, other companies may be able to offer better compensation packages to attract and retain qualified personnel than the Partnership may be able to offer. The cost to attract and retain qualified personnel has increased in recent years due to competition and may increase substantially in the future. The Partnership may not be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital, which could have a material adverse effect on the Partnership's business.

The Partnership may not be able to keep pace with technological developments in the industry. The oil and natural gas industry are characterized by rapid and significant technological advancements and introductions of new products and services using new technologies. As others use or develop new technologies, the Partnership may be placed at a competitive disadvantage, or competitive pressures may force the Partnership to implement those new technologies at substantial costs. In addition, other oil and natural gas companies may have greater financial, technical, and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Partnership is able to do so. The Partnership may not be able to respond to these competitive pressures and implement new technologies on a timely basis or at an acceptable cost. If one or more of the technologies used now or in the future were to become obsolete or if the Partnership is unable to use the most advanced commercially available technology, the business, financial condition, and results of operations could be materially adversely affected.

Financial difficulties encountered by the Partnership's oil and natural gas purchasers, third party operators or other third parties could decrease cash flow from operations and adversely affect exploration and development activities. The Partnership derives essentially all its revenues from the sale of its oil and natural gas to unaffiliated third- party purchasers, independent marketing companies and mid-stream companies. Any delays in payments from such purchasers caused by financial problems encountered by them will have an immediate negative effect on the Partnership's results of operations and cash flows.

Liquidity and cash flow problems encountered by the Partnership's working interest co-owners or the third-party operators of the Partnership's non-operated properties may prevent or delay the drilling of a well or the development of a project. The Partnership's working interest co-owners may be unwilling or unable to pay its share of the costs of projects as they become due. In the case of a working interest owner, the Partnership could be required to pay the working interest owner's share of the project costs. The Partnership cannot assure you that they would be able to obtain the capital necessary to fund these contingencies.

The Partnership may not have enough insurance to cover all the risks faced and operators of prospects in which the Partnership participates may not maintain or may fail to obtain adequate insurance. In accordance with customary industry practices, the Partnership maintains insurance coverage against some, but not all, potential losses to protect against the risks faced. The Partnership does not carry business interruption insurance. The Partnership may elect not to carry insurance if management believes that the cost of available insurance is excessive relative to the risks presented. In addition, the Partnership cannot insure fully against pollution and environmental risks. The occurrence of an event not fully covered by insurance could have a material adverse effect on the Partnership's financial condition and results of operations. The impact of natural disasters or weather events in the areas where the Partnership operates has resulted in escalating insurance costs and less favorable coverage terms.

Oil and natural gas operations are subject to hazards incident to the drilling and production of oil and natural gas, such as blowouts, cratering, explosions, uncontrollable flows of oil, natural gas or well fluids, fires and pollution and other environmental risks. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operation. The Partnership does not operate the properties in which it holds an interest. In the projects in which it owns a non-operating interest directly, the operator for the prospect maintains insurance of various types to cover operations with policy limits and retention liability customary in the industry. The Partnership believes the coverage and types of insurance are adequate. The occurrence of a significant adverse event that is not fully covered by insurance could result in the loss of the Partnership's total investment in a particular prospect which could have a material adverse effect on financial condition and results of operations.

As previously discussed above, the Management and Maintenance Agreement specifies that the Partnership be named as an additional insured for King Operating Corporation's general liability insurance coverage in the amount of twenty million dollars ($20,000,000) and workman's compensation insurance in the amount of one million dollars ($1,000,000).

Terrorist attacks aimed at energy operations could adversely affect the Partnership's business. The continued threat of terrorism and the impact of military and other government action have led and may lead to further increased volatility in prices for oil and natural gas and could affect these commodity markets or the financial markets used by us. In addition, the U.S. government has issued warnings that energy assets may be a future target of terrorist organizations. These developments have subjected oil and natural gas operations to increased risks. Any future terrorist attack on the Partnership's facilities, customer facilities, the infrastructure depended upon for transportation of products, and, in some cases, those of other energy companies, could have a material adverse effect on the Partnership's business.

The Management and Maintenance Agreement specifies that the Partnership be named as an additional insured for King Operating Corporation's general liability insurance coverage in the amount of twenty million dollars ($20,000,000) and workman's compensation insurance in the amount of one million dollars ($1,000,000).

Producing oil and gas wells decline over time. Oil and gas wells flow due to pressure gradients. The oil and gas flows from the high-pressure areas to the collection point. Pumps and other production methods are used to maintain well pressure. As a well produces oil and/ or gas from a reservoir, the reservoir pressure will decline with a corresponding effect on the amount of hydrocarbons collected. Investors should expect such declines. The actual decline curve is subject to numerous factors and cannot, in normal circumstances, be calculated in advance. The production from oil and gas wells is also subject to fluctuation for a myriad of reasons. Oil and/ or gas production may not be stable on a month-to-month basis. At some point such production may decline to the point where the well is no longer commercially viable, and it will be shut in or plugged. No prediction can be made as to how long or at what rate such a decline may occur.

Initial Production Tests are not necessarily indicative of expected production. Some of the data presented may include initial production tests. Such tests are not meant to be predictors of eventual production but may factor into decision to complete a well. Such tests are conducted under ideal conditions using pressurized reservoirs and such reports are typically reported to the state oil and gas administrative agencies. Subscribers should expect that initial production test results will be higher than actual production rates, both immediately and over the long term.

Impact of the Dodd-Frank Act. In July 2010 Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). This Act substantially changes financial regulation relating to the trading of commodities and commodity derivatives such as future contracts and thus may have a significant effect on the relevant prices for oil and gas going forward. For example, the Dodd-Frank Act requires that large banks spin off their proprietary trading operations, including their commodity trading operations. The Dodd-Frank Act may also impose limits on leverage used for trading commodities and commodity futures. Consequently, active traders in the oil and gas spot and futures market may possibly have less available capital to participate in these markets. The Dodd-Frank Act mandates hundreds of rule-making procedures and studies by financial regulatory agencies and the true impact of the Dodd-Frank Act will not be fully understood until those rules are issued and implemented, and those studies completed. The Managing General Partner makes no predictions or representations as to what impact the Dodd-Frank Act may have on the prices of oil and/ or gas and related demand.

Proposed tax and energy industry legislation may materially impact the Partnership Wells' financial performance. Joe Biden was sworn in as President on January 20, 2021. Biden's campaign policies included:

- Requiring aggressive methane pollution limits for new and existing oil and gas operations.
- Using the Federal government procurement system – which spends $500 billion every year – to drive towards 100% clean energy and zero-emissions vehicles.
- Ensuring that all U.S. government installations, buildings, and facilities are more efficient and climate-ready, harnessing the purchasing power and supply chains to drive innovation.
- Reducing greenhouse gas emissions from transportation – the fastest growing source of U.S. climate pollution – by preserving and implementing the existing Clean Air Act and developing rigorous new fuel economy standards aimed at ensuring 100% of new sales for light- and medium-duty vehicles will be electrified and annual improvements for heavy duty vehicles.
- Doubling down on the liquid fuels of the future, which make agriculture a key part of the solution to climate change. Advanced biofuels are now closer than ever as we begin to build the first plants for biofuels, creating jobs and new solutions to reduce emissions in planes, ocean-going vessels, and more.

On January 27, 2021, President Biden issued an executive order that includes the following restrictions on oil and gas development in the United States:

1) President Biden ordered the halt of new oil and gas leasing on federal onshore lands and offshore waters "to the extent consistent with applicable law." This pause will not affect existing operations or permits for existing leases, private lands or Native American tribal lands;
2) President Biden ordered the Secretary of the Interior to consider whether to adjust coal, oil, and gas royalties to account for corresponding climate costs, suggesting the possibility of a royalty increase; and
3) President Biden ordered the Department of the Interior to take steps toward conserving 30 percent of public lands and waters by 2030 and toward doubling offshore wind production in the same timeframe.

President Biden had previously ordered halting the leasing program for the Arctic National Wildlife Refuge and effectively suspended new leases, contract or drilling permits on public lands for 60 days. Moreover, on January 20, 2021 – inauguration day – President Biden issued an executive order withdrawing the permit for the Keystone XL pipeline and ordered agencies to consider new rules to cut methane emissions from oil and gas. Finally, President Biden ordered federal agencies to work toward eliminating fossil fuel subsidies by fiscal 2022.

On December 2, 2023, the U.S. Environmental Protection Agency (EPA) announced a final rule targeting methane emissions from the oil and gas sector. The EPA mandated (i) new source performance standards for methane and volatile organic compounds from new or modified oil and gas sources and (ii) emissions guidelines for states to follow in designing and executing implementation plans to cover existing sources.

On January 26, 2024, President Biden announced a temporary pause on pending approvals of liquified natural gas ("LNG pause") exports to countries with whom the United States does not have a free trade agreement. The LNG pause remains in effect as of the date of this Memorandum.

On April 25, 2024, the EPA issued final rules requiring that natural gas-fired power plants must control 90 percent (90%) of their carbon pollution, as well as several other rules targeting coal-fired power plants. This could cause some gas-powered plants to close and reduce demand for natural gas.

In sum, the Biden Administration has taken policy positions adverse to the oil and gas exploration industry. The above-referenced policy changes and other future policy changes from the Biden Administration could have a material effect on the economic performance of the Partnership. These policies may diminish the anticipated demand for oil and gas and, correspondingly, the diminish the available prices for hydrocarbon products, which may result in not attaining anticipated revenue targets.

This Memorandum was published shortly before a presidential election, which will lead to a new presidential administration regardless of who wins the election. Accordingly, the U.S. is in a period of political uncertainty as to its future energy industry policies.

.*Bad weather may delay production and development activities.* Adverse weather conditions may cause delays in drilling and completion operations. First, the delays could increase costs of operations as employees and equipment rentals may need to be paid while waiting on site. Partners are responsible for paying such increased costs through the completion of the well. Second, such delays could cause a delay in Partners receiving returns on investment, thus lowering the effective return on investment. Third, such delays could affect the tax year timing of deductibility of intangible drilling costs, especially if the Operator does not commence drilling operations on the Partnership Well by the deadline required under tax law. Fourth, such delays could affect oil and gas lease terms and delay rental payments. Finally, adverse weather could damage production and transport equipment used in collecting oil and gas from the Partnership well after the well is placed into production. The Partners may be liable for the cost of recovering from weather-related damage.

The Partnership will have Uninsured Risks and Liabilities. The environmental, weather and title risks stated above are not likely to be substantially mitigated by insurance. Consequently, such risks could lead to the diminution of Partnership Unit values and cashflows. These risks could further lead to demands for additional capital from Partners should these liabilities exceed the value of the Partnership Units. Partners could be themselves liable for such liabilities.

The Partnership has risks relating to the financial conditions of the Operator's subcontractors. The Managing General Partner anticipates that the Operator will seek out solvent non-affiliated subcontractors, but, if a subcontractor does not timely pay for materials and services, those providers could file liens against Partnership well. In that event, the Partnership could incur excess costs in discharging these liens.

Shut-in Wells; Delays in Production and Seasonality. Production from wells drilled in areas remote from marketing facilities may be delayed until sufficient reserves are established to justify construction of necessary pipelines and production facilities. In addition, production from well may be reduced or delayed due to marketing demands which tend to be seasonal. The wells drilled for the Partnership may have access to only one potential market. Local conditions including but not limited to closing businesses, conservation, shifting population, pipeline maximum operating pressure constraints, and development of local oversupply or deliverability problems could halt sales from the Partnership well.

Delay in Distributions of Revenue. Distribution of revenue may be delayed for substantial periods of time after discovery of oil or gas due to unavailability of, or delay in obtaining, necessary material for completion of a well; payment of operating and/ or development costs; reduced takes by purchasers of oil or gas due to market conditions; delays in obtaining satisfactory purchase contracts and connections for gas wells; delays in title opinions and obtaining division orders; and other circumstances. Customarily, the Partnership may commence the issuance of Partnership distributions within six to seven months from the date of issuance of the private placement offering. The Partnership must acquire the Leasehold Assets and sufficient time is required to drill and develop commercial wells situated on the Leasehold Assets. Once the commercial wells are placed into production, a sixty-day lag time exists after the close of a production month for the Partnership to receive the production proceeds from the sale of the hydrocarbons.

Asset Concentration. The Partnership assets will be oil and gas exploration and development properties in the continental United States. Any operational problems with any of the properties could have a material impact on Partnership performance. Finally, the Partnership's assets will be completely focused on one type of activity (exploration and production) in one industry (domestic oil and gas production). To mitigate this possible Asset Concentration, numerous geographical areas within the state of Texas have been selected to acquire Leasehold Rights. Additional, multiple different payzones are being targeted for exploitation. An approximate product mix of seventy percent (70%) oil with the balance being natural gas / natural gas liquids (NGLs) is being sought.

Owning Working Interest positions in the Partnership Wells. The Managing General Partner might not receive optimal pricing if it seeks to sell the Partnerships' Working Interest in the Partnership Wells. There may be a valuation discount per Working Interest percentage if the Partnership sells its interest in a Partnership Well versus tagging along with the Operator's sale of the entire well or leasehold. Subscribers should anticipate holding their Partnership Units for an extended period of time as the Partnership may be required to hold one or more of its Partnership Well Working Interests for an extended period of time.

Tax Risks

Oil and gas exploration in the United States benefits from several favorable U.S. tax rules, including depletion allowances and the option to expense intangible drilling and completion costs. Further, a partnership may also bring tax benefits under U.S. law. But, U.S. lawmakers, the U.S. Internal Revenue Service, and U.S. courts could modify or eliminate these favorable treatments. Further, the limited tax benefits associated with oil and gas exploration do not eliminate oil and gas production risks. See "Tax Aspects."

Tax Shelter Registration. The Managing General Partner will not apply to the U.S. Internal Revenue Service to register the Partnership as a "tax shelter." If the Partnership is subsequently determined to be a tax shelter requiring registration by the IRS, Partners could incur substantial penalties for this non-registration. The Managing General Partner does not believe that an investment in the Partnership will generate tax losses that exceed the amount invested and does not believe that the Partnership is a tax shelter but provides no assurance that the IRS will agree with that evaluation.

Tax Abuse Reclassifications. The IRS can seek to reclassify or disregard partnership transactions that it believes were used to avoid tax, particularly if a transaction has no independent economic substance. The Managing General Partner believes that its transactions will have independent economic substance and will not be abusive but can provide no assurance that the IRS will agree with that evaluation.

Tax Liabilities in Excess of Cash Distributions. Partnerships taxed as partnerships are pass-through tax entities under U.S. law. This means that the Partnership's losses and gains are taxed to the Partners on a pro-rata basis, and Partners can have taxable income, even if they have not received the corresponding cash. The Managing General Partner anticipates distributing revenue on a timely basis, but an unanticipated delay may cause the partners to realize income without receiving the corresponding cash. The decision to make a distribution will be in the sole discretion of the Managing

General Partner. Further, the Limited Partnership Agreement does not allow the Partnership to incur debt. But, if the Partnership for some reason accrues debt, paying debt derived from income may cause the partners to realize income without receiving the corresponding cash.

Chance of Audits. The Partnership may be subject to tax audits which may lead to taxable income adjustments for the Partners. The Managing General Partner provides no assurance that the Partnership's tax deductions will survive a challenge from the IRS.

Treatment of Partner's Losses and Income as Passive. If a Subscriber invests as a limited partner, the Limited Partner's Partnership losses and income will be treated as passive. If a Subscriber invests as an Additional General Partner, but has previously participated in exploration and production activities involving a well that produces from the same reservoir as the reservoir to be used targeted or used for the Partnership Wells and that Additional General Partner made that previous participation using a business entity which would have provided limited liability to the Additional General Partner for that Venture, then the Additional General Partner's income and losses from the Partnership Wells will be treated as passive income and losses, subject to passive loss limitations.

Treatment of Intangible Drilling and Completion Costs. The Managing General Partner will provide an allocation of intangible drilling and completion costs to Partners. If the IRS later determines that some of those costs should have been classified as selling, title, legal or other expenses that are not currently deductible (or not deductible at all), it will seek to disallow deductions based on that portion of the intangible drilling and completion costs and seek payment of corresponding taxes and penalties. The allocation of intangible drilling and completion costs is a frequent subject of IRS review, and the Managing General Partner makes no prediction as to what such a review may find.

Depletion. Depletion is calculated at Partner level by each Partner. Different Partners can have different depletion allowances. The Managing General Partner anticipates that most Partners will have their depletion determined on the greater of cost or percentage depletion basis. This means that the depletion is based on the amount of production in any year versus the estimated reserves as determined under the Tax Code. However, some Partners may qualify as "independent producers" and be able to use percentage depletion. Percentage depletion allows a deduction equaling up to 15% of the taxpayer's gross income from the property per taxable year, provided, in general, that the percentage depletion deduction not to exceed (i) 100% of the taxpayer's taxable income from the property (computed without the allowance for depletion) or (ii) 65% of the taxpayer's taxable income for the year (computed without regard to percentage depletion and net operating loss and capital loss carrybacks). If a Partner seeks to use percentage completion and is subsequently deemed not to be an "independent producer," it would have adverse tax consequences. Further, the Managing General

Partner anticipates that the Partnership Well will not qualify as a type of well that will generate accelerated depletion allowances. The Managing General Partner urges Partners to consult their own tax adviser in determining depletion allowances.

Partnership Status. Partnerships are generally taxed as pass-through tax entities. The Partnership intends to seek to be taxed as a partnership. Certain partnerships, particularly publicly traded partnerships, may be taxed as corporations. The Managing General Partner has no intent to seek a trading market for the Units and does not believe that the Partnership will be treated as a publicly traded partnership. Further, the Managing General Partner makes no prediction as to whether any future changes in the law of partnerships would affect the tax or partnership status of the Partnership. The Partnership will be subject to ongoing changes in applicable law.

Significance of Tax Aspects. The Partnership Units may have U.S. tax benefits, but there is no assurance that money invested in the Partnership will be recovered or that the Partnership's present interpretations of U.S. tax laws will not be changed or challenged. The Managing General Partner suggests that prospective investors obtain professional guidance from their tax advisor in evaluating the tax risks involved in investing in a Partnership and prefers that the investment decision should be motivated by a desire to have a return on investment rather than accruing related tax benefits.

Specific Risks of this Offering

Key Personnel Risk. The Partnership depends on key personnel of the Managing General Partner, including James M. Young, for the management development of the Partnership's business. The success of the Partnership's business depends on the key personnel's commitment to the enterprise and their personal relationships with operators, landmen and contractors. If any of the key personnel become unavailable to the Partnership for any reason, the Partnership's business could be severely impacted. The Manager (King) has secured key man life insurance coverage for key personnel and implemented employee benefit plans, events, and operations to cultivate a cohesive and committed employment environment

Reliance on Managing General Partner. The Managing General Partner's solvency and financial resources will materially affect the Managing General Partner's ability to fulfill its obligations to the Partnership.

Negligence of Operator. The Operator is required to maintain general liability insurance. But there can be no assurance that the dollar amount of insurance coverage will be sufficient to pay such claims. Consequently, claims may be made against the working interest, including the Partnership's working interest. Such claims may negatively affect Partners' capital accounts and distributions.

Substitute Well Location. The Managing General Partner reserves the right to move a Partnership Well's location or a Partnership Prospect from that described in this

Memorandum in the event (in the sole judgment of the Managing General Partner) additional geological information warrants the move. Additionally, the Managing General Partner reserves the right to substitute for, or add to, the specified oil and gas prospects if (in the sole judgment of the Managing General Partner) the development of a specific prospect becomes imprudent or inadvisable. In such event, Partners may not have an opportunity before purchasing Units to evaluate for themselves the relevant geophysical, geological, economic, or other information regarding the prospect(s) to be selected. If a new prospect or prospects are selected, delays in the investment or Proceeds from this offering may occur.

Assessments. If after a well has been completed and placed into production, the Operator determines that additional rework on the well is necessary; the Partnership could receive an additional assessment relating to that rework.

Other Working Interest Owners. The Partnership Wells will have other working interest owners besides the Partnership. If any such other Working Interest owners are unable to furnish the funds required to pay for drilling, testing and/ or completion associated with its Working Interests in the well, their portion may be paid by another Working Interest owner and such defaulting Working Interest owner may be penalized.

Limited Experience and Capital. The Partnership was only recently organized and has no history of operation and very limited capital. However, the Partnership has designed an experienced twenty-seven year licensed Texas oil and gas operator as the Manager of the Partnership's assets.

Arbitrary Offering Price. The offering price and terms for the Units were arbitrarily fixed by the Managing General Partner based upon the Partnership's presently contemplated financing needs. No investment banker or other appraiser was consulted regarding such price and terms. The offering price bears no relationship to the potential value of the Partnership Wells or the possible future earnings of the Partnership.

Winding-Up of the Partnership. The Partnership may be terminated upon the occurrence of certain events as stated in the Partnership Agreement, including the sale of Partnership assets. There is no assurance that such assets will be marketable or that competitive prices can be obtained for these assets. Upon liquidation, Partnership obligations will be paid. In the event the Partnership terminates, and the assets are unable to be sold, the Partners may receive individual Working Interests in the Partnership Wells. At that time, the Partners may find it advisable to obtain additional (and possibly quite expensive) personal liability insurance to provide them with coverage commensurate with this new form of ownership. Partners may concurrently find it more difficult to dispose of such interests because of the diversity of owners and interests involved. The Managing General Partner has the right to terminate the Partnership as provided in the Partnership Agreement.

Reliance on Projections and/or Opinions. No agents of the Managing General Partner have been authorized to make any projections or express any opinion concerning future events, expected production, or availability of tax benefits, except as set forth within this Memorandum. No oral opinions which differ from the written data provided prospective investors have been authorized and should not be relied upon. Opinions of possible future events are based upon various subjective determinations and assumptions. All projections by their very nature are inherently subject to uncertainty; accordingly, a prospective investor will be subject to the risk that any such projections will not be reached, that any such underlying assumptions may prove to be inaccurate.

Liability and Indemnification of the Managing General Partner. The Partnership Agreement provides that the Managing General Partner will not be liable to the Partnership or to any Partner for and will be indemnified and held harmless by the Partnership in respect of, the consequences of any act or failure to act of the Managing General Partner unless such act or omission constitutes gross negligence or willful misconduct. The existence of these provisions grants to the Partners more limited causes of action than they might otherwise have had against the Managing General Partner in the absence of such provisions.

Arbitration. Disputes with the Managing General Partner arising from the purchase of Units in the Partnership by a Partner are subject to arbitration sponsored by the American Arbitration Association, rather than civil litigation filed in court. Such dispute resolution may be viewed as depriving the Partners of their full legal remedies.

Absence of Registration under Applicable Securities Laws. Prospective investors must recognize that the Units have not been, nor will they be, registered with the SEC or any State or Provincial Securities Administrator. Subsequently, no sale can be made without registration, unless there is an applicable registration exemption. No regulatory authority has reviewed the nature and amounts of compensation to be paid to the Managing General Partner, the disclosure of risks and tax consequences inherent in such investment, or the other terms of this offering. Prospective investors must recognize that they do not necessarily have all the protections afforded by federal, state, or provincial securities laws to registered or qualified offerings. They must therefore judge for themselves the adequacy of the disclosures, the amounts of such compensation, and the fairness of the other terms of this offering without the benefit of prior review by any regulatory authority.

Limits on Transferability of the Units. Partners are unlikely to be able transfer units. The Managing General Partner must consent to any subsequent sale if the transferee is to become a Substitute Partner. In that regard, the Managing General Partner may also require an opinion of counsel to the effect that any such transfer will not violate applicable federal, state, or provincial securities laws. The Units will not be, and the purchasers of the Units have no right to require that they be, registered under the Act. There will be no public market for the Units and no market is expected to develop. In addition, each transferee of any Units must, unless specifically exempted by the Managing General Partner, satisfy the suitability standards contained herein. No assurances can be given that transferees meeting these standards will be interested in acquiring any Units in the Partnership. Neither the Partnership nor the Managing General Partner has an obligation to repurchase any of the Units from the Partners. The Units may become progressively less attractive to any prospective purchaser thereof because the anticipated tax benefits associated with an investment in the Partnership will decline over time as the Partnership Wells are drilled, tested, and completed and because of the payment of nonrecurring fees to be deducted by the Partnership in the earlier years of the Partnership.

No Market for Partnership Units. There is no market for the resale of the Partnership Units and the Managing General Partner anticipates that no such market will ever develop. This means that there is no liquidity or pricing mechanisms for the resale of Partnership Units. Indeed, to maintain its status as a pass-through tax entity, the Partnership should avoid arranging for a liquid market for its Units. Consequently, Partners will have difficulty reselling the Units and such resales may not be completed at competitive prices. Investors should understand that the Partnership Units will likely be held as long-term investments.

No Redemption Rights. The Managing General Partner has no obligations to repurchase any Partnership Units.

The Partnership may be required to report an investor's identity to the U.S. Treasury Department's Financial Crimes Enforcement Network if such investor owns more than twenty-five percent (25%) of the Partnership. If an Investor Partner owns more than twenty-five percent (25%) of the Partnership, the Partnership may be required to report such ownership to the U.S. Treasury Department's Financial Crimes Enforcement Network ("FinCEN"). Congress adopted the Corporate Transparency Act ("CTA") as part of the Anti-Money Laundering Act of 2020, which was included in the National Defense Authorization Act for Fiscal 2021. The effective date was January 1, 2024. The Partnership will be required to report its beneficial owners which includes: "any individual who, directly or indirectly, either exercises substantial control over such reporting (business) or owns or controls at least 25 percent of the ownership interests of such reporting (business) (31 CFR § 1010.380(d).)." Investor Partners will be passive and not generally qualify as persons with substantial control under the CTA. But, if an investor owns twenty-five percent (25%) or more of the Partnership, the Partnership will be required to report such ownership to FinCEN by December 31, 2024. If the reported person obtains a FinCEN identifier, the report will be the FinCEN identifier. If there is no FinCEN identifier, the CTA and its rules require the submission of the beneficial owner's full legal name, the date of birth, the current address, and a unique identification number, and an "image of the document from which the unique identifying number…was obtained." (31 CFR § 1010.380(b)(1)(ii)) The unique identification number can come from a valid passport, valid driver license, or other valid identification document issued to the individual by the state, local government, or Indian tribe.

TERMS OF OFFERING

The Partnership. The Managing General Partner, on behalf of the Partnership, hereby offers 500 Units of King Operating Partners III, LP Partnership Units priced at $200,000 per Unit for a Subscription Amount of $100,000,000.

Deposit and Use of Funds. The Subscription payments received by the Partnership will initially be paid to the Partnership, which shall pay the designated portion to the Manager, King Operating Corporation, as selected by the Managing General Partner.

Revenues from operations of the Partnership will be collected by the Manager and deposited in a Partnership production bank account from which the Manager, King will remit all Royalties, Overriding Royalties, Operating Costs and General and Administrative Costs incurred by the Partnership. Additionally, from this segregated account, the net operating cash flow, as determined by the Managing Partner, will issue monthly partnership distributions to Partners.

Subscription Procedure and Payment. Initial payments for Subscriptions for the Units described herein will be payable upon the execution of the Subscription Documents. The Managing General Partner will require the submission of Subscriptions accompanied by wire transfer, ACH or check made payable to King Operating Partners III, LP in the initial deposit amount of $200,000 per Unit subscribed. Subscriptions must be for whole Units with a one unit minimum unless the Managing General Partner waives the minimum.

ELECTRONIC DELIVERY OF DOCUMENTS

The Partnership intends to provide the Memorandum, Memorandum supplements, reports, distribution notices, and other information or documents electronically unless you opt-out of electronic delivery by sending us instructions in writing that you would like to receive such documents in paper format. Unless you elect otherwise and notify us as provided in this Memorandum, all documents will be provided in electronic form by email or posted to an Investor Portal website. Should an Investor Portal website, be used, each Investor Partner be used, each Investor Partner will be provided access to the Investor Portal website.

You must have internet access to use electronic delivery. While we impose no additional charge for this service, there may be potential costs associated with electronic delivery, such as on-line charges. Documents may be available on our website. You may access and print all documents provided through this service. As documents become available, we will notify you of this by sending you an e-mail message that will include instructions on how to retrieve the document. If our e-mail notification is returned to us as “undeliverable,” we will attempt to contact you to obtain your updated e-mail address. If we are unable to obtain a valid e-mail address for you, we will send a paper copy by regular U.S. mail to your address of record. You may opt-out of electronic delivery at any time and, following receipt of your notification, we will begin sending you a paper copy of all required documents. However, in order for us to ensure timely delivery of documents to you, your notification must be given to us a reasonable time before electronic delivery has commenced. We will provide you with duplicate paper copies at any time upon request. Such request will not constitute notification of your decision to opt-out of electronic delivery.

PLANS OF DISTRIBUTION

The Partnership Units will be sold by the Managing General Partner. The Managing General Partner may use finders. Any finder compensation may be paid from the Managing General Partner’s Partnership Units and shall not dilute Subscribers’ interest in the Partnership.

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 estimated oil and gas reserves, estimated recoverability of oil and gas reserves, oil and gas prices, well drilling and completion costs and budgets, environmental conditions, weather, quality and timely delivery of equipment and materials to the wellsites, regulatory compliance, tax treatments, competition, management expertise and other similar matters. These statements are based on certain assumptions and analyses made by the Partnership and the Managing General Partner considering their experience and their perception of historical trends, current conditions and expected future developments. However, whether actual results will conform with these expectations is subject to several risks and uncertainties, many of which are beyond the control of the Partnership, including general economic, market or business conditions, changes in laws or regulations, the risk that the wells are productive but does not produce enough revenue to return the investment made, the risk that the wells are dry holes, uncertainties concerning the price of gas and oil, and other risks. Thus, all the forward-looking statements made in this Memorandum and its exhibits are qualified by these cautionary statements. There can be no assurance that actual results will conform to the Managing General Partner’s and the Partnership’s expectations.

PROPOSED ACTIVITIES

Oil and gas exploration involves a high degree of risk because of the many uncertainties inherent in locating and developing oil and gas reservoirs. Neither scientific techniques nor management expertise can eliminate those risks. Notwithstanding the presence of such uncertainty, the Partnership plans to participate in the Partnership Wells.

Investment Objective

The primary investment objective of the Partnership is to participate in the drilling and production of oil and gas in commercial quantities.

Plan of Operations

The Partnership was formed to acquire oil and gas leaseholds and mineral interests and develop such by drilling, re-entering, testing, completing, re-completing, and equipping vertical, directional, and/ or horizontal wells located on such properties to produce oil and/ or gas and associated Hydrocarbons in commercial quantities. It focuses on the continental United States.

Description of Operator and Cost of Operations

King will operate the Wells in which the Partnership, King and its affiliates control the majority of the Working Interest. For each proposed implementation plan of property acquisition, well optimization, well recompletions, and new Wells that are drilled, side-tracked, deepened, or re-worked (excluding routine well management and maintenance, each an "Operation"). King will report to the Partnership the cost of acquiring Leasehold Assets (Oil & Gas Mineral Interests) and cost of developing the Partnership's assets by acquiring existing commercial wells or drilling proposed wells. Pursuant to the Management and Maintenance Agreement, King may charge the Issuer a Contribution Margin of up to 20% costs relating to each Well Operation, including properties transferred from its or its' affiliates' holdings. The amount that King may receive for each Operation will vary from Operation to Operation depending on the actual costs. See "Management and Maintenance Agreement - Contribution Margin."

If, in the future, the Issuer enters into an agreement whereby a third party agrees to contribute capital and co-develop the Partnership Properties, the Issuer may decide to jointly drill any Wells with such third party pursuant to an agreement entered into with such third party. The Issuer and such third party would select an entity to be the Operator, which may or may not be King or the Issuer. In the event this occurs, then that Operator will be solely responsible for overseeing the conduct of operations. In making decisions about such operations, the Operator will or may be subject to conflicts between its interests and the interests of the Issuer and the third party. The Issuer's Working Interest in the Partnership Properties would most likely be subject to a joint operating agreement under which the specific Operator will operate the wells for base compensation per month (which amount may be increased annually pursuant to the terms of the operating agreement), plus reimbursement of all direct costs. These direct costs are subject to the provisions of the Management and Maintenance Agreement.

Market

As of December 2, 2024, the natural gas (Henry Hub - Louisiana) spot price was $3.05 per MMBTU on NYMEX according to the U.S. Energy Information Administration. As of December 5, 2024, the spot price for West Texas Intermediate Crude (Cushing, Oklahoma) was $68.58 per BBL and the spot price for Louisiana Light Sweet Crude was $71.18 per BBL according to the U.S. Energy Information Administration. The net prices obtained for gas and oil will likely differ from the referenced market quotes due to transportation costs and the way such transportation costs are assigned in the oil and gas leases and differences in the designated quality of the oil or gas. For example, in some leases, transportation costs can be charged against the royalty interests and in others such costs cannot be charged against those interests. In general investors should expect that the realized price will be less than the prices posted on the commodities exchanges for specifically designated locations because there is no commodities exchange-based trading market for prices of oil and gas at the Partnership Well wellheads. The price obtained will be the price negotiated with the local purchaser.

Substitute Well Location or Decision Not to Drill

The Managing General Partner or Operator may determine the location of wells to be drilled and it is possible that such locations may change prior to drilling. The Managing General Partner will on behalf of the Partnership participate in such decisions to the extent of the Partnership's rights. It is possible that the Operator could decide not to drill Partnership Wells in the locations and according to the plan described in this Memorandum.

MANAGEMENT

The Issuer's Managing General Partner is KOP III GP LLC, a Texas limited liability company. James R. Young is the President, and it has no other officers or employees. However, through the Issuer's Management and Maintenance Agreement with King, the management team of King will be responsible for the drilling and operations of the Partnership Properties, as well as conducting or supervising record-keeping, accounting, land, geological, and engineering services. See "<u>Description of the Management and Maintenance Agreement</u>."

Below are the names of the officers for King, as well as some biographical information.

Name	Age	Position
James R. "Jay" Young	60	Founder & Chief Executive Officer
Steve Mullican	62	Chief Operating Officer
Jimmy Cleveand	46	Chief Growth Officer
Rex E. Gifford	70	EVP – Tax
Bill Phillips	72	SVP, Land and Business Development
Kelly Duncan	37	VP – Operations
Paul Gerome	64	SVP – Geoscience

James R. "Jay" Young – Founder & Chief Executive Officer

Mr. Young, age 60, serves as Founder & CEO of King Operating Corporation, a position he has held since 1996. He has 27 years of experience as an executive leader in oil & gas. This experience is primarily in the areas of oilfield operations, asset development, and capital fundraising.

Since founding King Operating Corporation in 1996, Mr. Young has served as the CEO, a role that created an opportunity for him to innovate a new model for accredited investors to participate in the Upside of Oil and Gas Investing, also the title of his recently published book.

He also serves as a member of the Board of Directors for the Boy Scouts of America and is also a member of the Forbes Business Council.

He is a graduate of Angelo State University where he earned a Bachelor of Science degree in Business Administration in 1985.

Steve Mullican – Chief Operating Officer

Steve Mullican joined King Operating Corporation in April 2024 and was named Chief Operating Officer in June 2024. He has over 15 years of experience as an executive leader in oil and gas and over 35 years of experience in reservoir engineering, oilfield operations, asset exploitation and business development.

Most recently, Steve served as the VP of Engineering and Founding Partner at Colt Energy, LLC, where he played a pivotal role in the company's inception and growth in New Mexico's oil and gas sector. Prior to that, he was the VP of Engineering and Officer at Freedom Oil and Gas Company, a publicly traded entity on the ASX with operations in the South Texas Eagle Ford play.

In his career, Steve has held various executive, business development, engineering and operations roles across multiple Lower-48 basins. He is a member of the Society of Petroleum Engineers where he has served in a variety of leadership capacities.

Steve is a graduate of the University of Tulsa and earned a Bachelor of Science degree in Petroleum Engineering in 1984.

Jimmy Cleveland – Chief Growth Officer

Jimmy Cleveland joined King Operating Corporation in March 2024 and was named Chief Growth Officer in June 2024. Jimmy brings a wealth of experience and a proven track record of success to his role at King. A graduate of the University of Texas at Dallas with a degree in Business Finance, Jimmy began his career at a Chevrolet dealership in Dallas. Within a decade, his dedication and expertise propelled him to become an equity partner in Honda and Volkswagen dealerships in Florida.

Under Jimmy's leadership, these dealerships, along with six additional dealerships and multiple ancillary businesses, were sold and divested at advantageous multiples. His strategic vision and business acumen have been instrumental in driving growth and profitability across all his ventures.

Connect with Jimmy Cleveland to learn more about his journey and how he continues to drive growth and innovation at King.

Rex E. Gifford – Executive Vice President – Tax

Mr. Gifford serves as the Executive Vice President of Tax of King Operating Corporation. He formerly served as Chief Financial Officer of King Operating Corporation from September 2007 to December 2022. He has 27 years of oil and gas industry experience serving as Chief Financial Officer of King Operating Corporation and New Horizon Exploration Inc., respectively. This experience is primarily in the areas of accounting, partnership taxation, supervising the formation, management and economic reporting functions for the oil and gas properties and oilfields for private placement offerings.

From January 1995 to September 2007, Mr. Gifford served as the CFO of New Horizon Exploration, Inc. Prior to his tenure with New Horizon Exploration, Mr. Gifford provided accounting and income tax services for industry, local public accounting firms, and as a Field Agent for the IRS.

Mr. Gifford obtained a BBA in Accounting from the University of Texas.

Bill Phillips – Senior Vice-President, Land and Business Development

Bill Phillips joined King in February 2024, and was named Senior Vice President of Land and Business Development in August 2024. Bill brings over 45 years of experience in upstream operations across North and South America. His expertise encompasses all phases of land, business and corporate development, exploration and production operations, and international joint venture programs. For the past 30 years, he has held senior and executive management positions at notable companies such as Mesa Petroleum, American Quasar Petroleum Company of New Mexico, The Wiser Oil Company, Marsh Operating Company, Hunt Oil Company, and Skelly Energy Company.

He has served on various industry boards, including the American Association of Professional Landmen (AAPL), the NAPE Operating Committee, the Marcellus Shale Coalition, and local land organizations in Houston and Dallas.

Bill earned a degree in Petroleum Land Management from The University of Texas at Austin and currently serves on the Advisory Council of the Kay Bailey Hutchison Energy Center at The University of Texas. He is also a member of The Texas Leadership Society and other boards at the university. In 2013, he was awarded the TIPRO Best Landman award and is a frequent speaker at various industry trade organizations and universities, including Texas Christian University (TCU) and The University of Texas at Austin.

Kelly Duncan – Vice President Operations

Mr. Duncan, age 43, is the Vice President Operations of King Operating Corporation. He originally joined King Operating Corporation as Contract Operations Manager in November 2021 and in June of 2023 came on full time as the Vice President of Operations.

He oversees the entire operational engineering department and himself acts as King's Drilling Engineer. Diligent engineering planning and absolute cost control are two of his key drivers.

Kelly's 25 years of experience has been a mix of engineering and field operations for both operators big and small. He began his technical career with Coastal/ El Paso where he rotated through all engineering disciplines eventually became Sr. Drilling Engineer. He then joined Petrohawk and helped hone their Haynesville assets and kick off their Eagle Ford development, eventually assisting in the sale and transition of the company to BHP Billiton. He next joined GeoSouthern Energy and (i) helped build their Eagle Ford and Austin Chalk from a 1 to 6 rig program as Operations Manager and (ii) assisted in the sale to Devon for $6 billion. After his time with Devon, he ran the technical side of Acock Engineering and Associates as VP of Engineering and worked with mostly independent operating companies, acting in a variety of engineering and project management roles from stake to P&A. Through this role, he met and joined King. He has drilled and completed over 2,200 wells in 14 states and most of the major plays throughout the country.

Mr. Duncan has a Bachelor of Science in Mechanical Engineering from Texas A&M University Kingsville (Texas A&I).

Paul Gerome – Senior Vice President – Geoscience

Mr. Gerome, age 63, is the Senior Vice President of Geoscience for King Operating Corporation. He has 41 years of oil and gas industry experience primarily in exploration, and development of new and existing fields. He was a member of several New Ventures Teams with Marathon, Southwestern Energy, EQT, and GeoSouthern Energy. Most recently employed by Marathon Oil Company as an internal Geologic Consultant for the Resource Exploration Team (REX) seeking new exploration opportunities across the lower 48 states. Prior to Marathon, he was the Exploration Manager for GeoSouthern Energy in The Woodlands, Texas.

As the Exploration Manager, Paul directed operations and guidance to the to the downdip Austin Chalk play as well as other East Texas Cretaceous plays. Other employment experience included being a member of the New Ventures Team for Southwestern Energy analyzing new opportunities in many basins of the United States and Australia, Senior Vice President of Geology and Geophysics for CDX Gas in Hoover, Alabama, and District Geologist for EQT/ Statoil where he led the development team in drilling hundreds of Paleozoic wells in West Virginia and Ohio and led the exploration effort in the Appalachian Basin. He has conventional, unconventional, and exploration background across the lower 48 of the United States, including Coal Bed Methane, as well as several other countries. He lived and worked internationally in the eastern province of Saudi Arabia. Experienced in Geology, Geophysics, M&A activities, Land, and Engineering.

He has a Bachelor of Science degree in Geology from Indiana University of Pennsylvania, and a Master of Business Administration from the University of Dayton. He is a Certified Petroleum Geologist with the American Association of Petroleum Geologist and a registered Professional Geoscientist of Texas.

TAX ASPECTS

THE TAX PORTIONS OF THIS MEMORANDUM ARE NOT, AND SHOULD NOT BE CONSTRUED TO BE, TAX ADVICE TO ANY PERSON OR ENTITY INVESTING IN OR CONSIDERING INVESTING IN THIS OFFERING. EACH INVESTOR AND POTENTIAL INVESTOR SHOULD RELY EXCLUSIVELY ON SUCH INVESTOR'S TAX AND FINANCIAL

PROFESSIONAL ADVISORS FOR THE RENDITION OF TAX ADVICE IN CONNECTION WITH THIS OFFERING.

CIRCULAR 230 DISCLOSURE: PURSUANT TO U.S. TREASURY DEPARTMENT REGULATIONS, YOU ARE ADVISED THAT UNLESS OTHERWISE EXPRESSLY INDICATED, ANY FEDERAL TAX ADVICE CONTAINED IN THIS COMMUNICATION, INCLUDING ATTACHMENTS AND ENCLOSURES, IS NOT INTENDED OR WRITTEN TO BE USED, AND MAY NOT BE USED FOR THE PURPOSE OF (1) AVOIDING TAX-RELATED PENALTIES UNDER THE INTERNAL REVENUE CODE, OR (2) PROMOTING, MARKETING, OR RECOMMENDING TO ANOTHER PARTY ANY TAX-RELATED MATTERS ADDRESSED HEREIN.

A limited partnership taxed as a partnership incurs no federal income tax liability under US law. Instead, taxable income and losses are passed through to its member, although it must file information returns with the IRS. In general, the character of a Partner's share of each item of income, gain, loss, deduction, and credit is determined at the Partner level. The Partnership will allocate each Partner a share of these items as required by the Partnership Agreement to determine the Partner's income or loss. Partners report these Profits and Losses without regard to whether the Partner has received or will receive any cash distributions from the Partnership. So, Partners could be liable for income taxes on Profits without receiving any corresponding cash payments.

Bonus Depreciation

Tax Code Section 168(k)(2) from 2017's Tax Cuts and Jobs Act allows bonus depreciation for any qualified property with a depreciable life of 20 years or shorter. The qualified property with depreciable life of 20 years or shorter may include oil and gas equipment such as tanks, pumps, and pipeline. Such assets may be subject to a temporary bonus depreciation which results in a pass-through write-off of up to sixty percent (60%) for 2024, forty percent (40%) for 2025, and twenty percent (20%) for 2026 of the potential depreciation of such qualified equipment.

Alternative Minimum Tax

The Tax Cut and Jobs Act addresses the Alternative Minimum Tax ("AMT"). For 2017 the AMT is imposed on an individual, estate, or trust in an amount by which the tentative minimum tax exceeds the regular income tax for the taxable year. For taxable years beginning in 2017, the tentative minimum tax is the sum of (1) 26 percent of so much of the taxable excess as does not exceed $187,800 ($93,900 in the case of a married individual filing a separate return) and (2) 28 percent of the remaining taxable excess. For 2017, the exemption amounts are phased out by an amount equal to 25 percent of the amount by which the individual's AMTI exceeds (1) $160,900 in the case of married individuals filing a joint return and surviving spouses, (2) $120,700 in the case of other unmarried individuals, and (3) $80,450 in the case of married individuals filing separate returns or an estate or a trust. The AMT is also subject to numerous preferences and adjustments for certain types of income and deductions.

The AMT thresholds and AMT phase-out thresholds will be temporarily increased for the 2018 – 2025 tax tears, as shown by the following table.

The Tax Cut and Jobs Act AMT Impact

Description	2017 Single Filer	2018-2025 Single Filer	2017 Joint Filers	2018-2025 Joint Filers
AMT Exemption Threshold	$54,300	$70,300	$84,500	$109,400
AMT Exemption Phaseout Threshold	$120,700	$500,000	$160,900	$1,000,000

Taxation of Pass-Through Entities

The Tax Cut and Jobs Act added Internal Code Revenue Section 1099A which materially decreases the tax rates on business entities taxed as partnerships. For 2018 through 2025 ordinary income tax rates for oil and gas Partnerships taxed as partnerships will include a 20% deduction from taxable income generated by the Partnership. The deduction needs to be taken by the taxpayer, not the Partnership.

But this deduction is limited by payment of W-2 income to employees and income thresholds. The deduction generally would be limited to the greater of 50% of the taxpayer’s pro rata share of domestic wages paid by the business; or the sum of 25% of such wages and 2.5% of the initial basis of tangible depreciable property used in the business. The limitation is phased in for individuals with taxable income exceeding $315,000 in the case of a joint return (or $157,500 for single filers).

These wage restrictions and income thresholds means that Section 1099A will likely not be a benefit to Subscribers to Partnership Units.

TAX SHELTER RULES

The Tax Code provides that promoters must register certain investments must as tax shelters with the IRS. These tax shelter promoters must provide registration numbers to investors who are required to report the numbers on their personal tax returns. They must also prepare and maintain lists of the tax shelters’ participants. The Tax Code and Treasury Regulations define t“ax shelters” in several different ways and impose different obligations on the tax shelter’s promoters and participants depending on the type of tax shelter. Some types of tax shelters must be “registered” with the IRS, while others, called “Reportable Transactions,” must be disclosed to the IRS. The Managing General Partner believes that the Partnership will not be considered a tax shelter under any of the various definitions in the Tax Code and Treasury Regulations.

The registration requirements apply to an investment with respect to which any person could reasonably infer from the representations made, or to be made, in connection with the offering for sale of interests in the investment that the "tax shelter ratio" for any investor is greater than two to one as of the close of any of the first five years ending after the date on which such investment is offered for sale. Temp. Treas. Reg. § 301.6111-1T.

The Managing General Partner believes that: (i) based on it and its Affiliates' experience with previous drilling programs and on the Partnership's planned operations, the Partnership will not have a tax shelter ratio greater than two to one, (ii) the investor's potentially allowable deductions and credits will not result in any Partnership having a tax shelter ratio greater than two to one, and (iii) based upon a review of the economics of similar oil and gas drilling programs for the past several years, it has determined that none of those programs has resulted in a tax shelter ratio greater than two to one. Accordingly, the Managing General Partner does not intend to cause the Partnership to register with the IRS as a tax shelter.

If the IRS or the Managing General Partner subsequently determine that the Partnership should have been registered as a tax shelter with the IRS, the Partnership would be subject to certain penalties under Tax Code § 6707, including a penalty ranging from $500 to 1% of the aggregate amount invested in the Partnership Units for failing to register and $100 for each failure to furnish to a Partner a tax shelter registration number, and each Partner would be liable for a $250 penalty for failure to include the tax registration number on his tax return, unless such failure was due to reasonable cause. A Partner also would be liable for a penalty of $100 for failing to furnish the tax shelter registration number to any transferee of his Partnership Units. The Managing General Partner can give no assurance that, if the Partnership is determined to be a tax shelter that must be registered with the IRS, the above penalties will not apply.

In addition to the tax shelter registration requirements described above, (i) every taxpayer that participates in a "Reportable Transaction" generally must disclose the transaction to the IRS using Form 8886 and (ii) every organizer and seller of a "Potentially Abusive Tax Shelter" (that is generally a reportable transaction or a tax shelter that is required to be registered) generally must prepare and maintain a list of each of the participants in the transaction. See Treas. Reg. §§ 1.6011-4 and 301.6112-1. A Reportable Transaction (and accordingly, by definition, a Potentially Abusive Tax Shelter) includes certain transactions that give rise to a significant book-tax difference. Treas. Reg. §§ 1.6011-4(b)(6) and 301.6112-1(b)(2)(i)(B). But a book-tax difference caused by expensing intangible drilling costs pursuant to Tax Code § 263(c) is not considered for these purposes. Rev. Proc. 2003-25, § 4.04, 2003-11 I.R.B. 601 (February 27, 2003). In addition, the Partnership does not otherwise satisfy the definition of a Reportable Transaction. Therefore, the Managing General Partners believes that an investment in the Partnership will not be a Reportable Transaction. Furthermore, the Managing General Partner believes that the Partnership will not be a Potentially Abusive Tax Shelter because an investment in the Partnership will not be a Reportable

Transaction and because the Partnership will not be a tax shelter that is required to be registered. Consequently, the Managing General Partner anticipates that the Partners will not be required to disclose the Partnership as a tax shelter on Form 8886 and the Managing General Partner will not be required to maintain a list of the Partners as participants in a tax shelter.

DEPRECIATION DEDUCTIONS

The Partnership will claim depreciation, cost recovery, and amortization deductions with respect to its basis in Partnership Property as permitted by the Tax Code. For most tangible personal property placed in service after December 31, 1986, the modified accelerated cost recovery system ("MACRS") must be used in calculating the cost recovery deductions. Thus, the cost of lease equipment and well equipment, such as casing, tubing, tanks, and pumping units, and the cost of oil or gas pipelines cannot be deducted currently but must be capitalized and recovered under "MACRS." The cost recovery deduction for most equipment used in domestic oil and gas exploration and production and for most of the tangible personal property used in natural gas gathering systems is calculated using the 200% declining balance method switching to the straight-line method, a seven-year recovery period, and a half-year convention.

General Partner will not be required to maintain a list of the Partners as participants in a tax shelter.

PARTNERSHIP AUDIT SIMPLIFICATION ACT OF 2015

In November 2015, President Obama signed the Partnership Audit Simplification Act of 2015 after its passage by Congress. It provides that any adjustment of income, gain, loss, deduction, credit, tax, penalty, or addition to tax for a limited partnership taxed as a partnership (and any Partner's distributable share of the Partnership) shall be determined at the Partnership level. Partners will not be able to file, challenge or negotiate separately with the Internal Revenue Service. Partners will be bound by the actions of the Partnership as undertaken by and through the Managing General Partner, acting as the "Partnership Representative" under Tax Code § 6223.

Further, the Partnership will be liable under the Partnership Audit Simplification Act of 2015 for any subsequent adjustments, penalties, and additional taxes at the date of such imposition, regardless of whether the partnership ownership or ownership percentages of changed since the previous tax treatment. So, there is a risk that new Partners in subsequent years could be indirectly subject to economic liability through the Partnership for tax treatments for which they previously received no benefit. As stated elsewhere, the Partner Units will have no market and carry substantial restrictions on transferability. Consequently, the Managing General Partner does believe that such subsequent year transfers of Partnership Units will be a common occurrence.

The Partnership Audit Simplification Act of 2015 provides that limited liability companies taxed as partnerships with fewer than 100 partners who have no other business entities taxed as partnerships (such as limited partnerships or limited liability companies) as partners may opt out of the Code provisions providing for taxes at the Partnership level. The Partnership Agreement does not contain any such opt out language. The Managing General Partner reasonably expects that some Subscribers will subscribe to the offering using a limited liability company or a partnership, thus making the opt-out provisions unavailable to the Partnership.

New Tax Code § 6235 under the Partnership Audit Simplification Act of 2015 creates a single statute of limitations for Partners, providing that an adjustment under the Act's new rules cannot be made three years after the later of: (i) the date the limited partnership filed its return; (ii) the limited partnership's return's due date; or (iii) the date on which the limited partnership filed an administrative adjustment request. This period may be extended pursuant to an agreement between the IRS and the limited partnership.

Similarly, the Partnership Audit Simplification Act of 2015 significantly alters the period for a limited partnership to file an administrative adjustment request. First, new Tax Code § 6227 provides that an administrative adjustment request may not be filed after the IRS issues a notice of administrative proceeding to the limited partnership. Second, and perhaps most importantly, unlike previous law, the extension of a limited partnership's assessment statute of limitations does not simultaneously extend the period to file an administrative adjustment request. Taken together, these two revisions significantly curtail a limited partnership's ability to file administrative adjustment requests.

INTEREST DEDUCTIONS

The Partners will acquire their interests by remitting cash in the amount of up to $200,000 per Unit to the Partnership. The Partnership will not accept notes in exchange for a Partnership Units. Nevertheless, without any assistance of the Managing General Partner or any of its Affiliates, some Partners may choose to borrow the funds necessary to acquire the Partnership Units and may incur interest expense in connection with those loans. The Managing General Partner makes no representations on the tax treatment of the interest on such loans.

TRANSACTION FEES

The Partnership may classify a portion of the fees (the "Fees") to be paid to third parties and to the Managing General Partner or to the Operator and its Affiliates (as described in the Offering Memorandum under "Source of Funds and Use of Proceeds") as expenses that are deductible as offering expenses and marketing fees. The Managing General Partner makes no assurance that the IRS will allow the deductibility of such expenses.

Generally, expenditures made in connection with the creation of, and with sales of interests in, a partnership will fit within one of several categories.

A partnership may elect to amortize and deduct its organizational expenses (as defined in Tax Code § 709(b)(2) and in Treas. Reg. § 1.709-2(a)) ratably over a period of not less than 180 months commencing with the month the partnership begins business. Organizational expenses are expenses that (i) are incident to the creation of the partnership, (ii) are chargeable to capital account, and (iii) are of a character that, if expended incident to the creation of a partnership having an ascertainable life, would (but for Tax Code § 709(a)) be amortized over such life. Id. Examples of organizational expenses are legal fees for services incident to the organization of the partnership, such as negotiation and preparation of a limited partnership agreement, accounting fees for services incident to the organization of the partnership and filing fees. Treas. Reg. § 1.709-2(a).

Under Tax Code § 195, no deduction is allowable with respect to "start-up expenditures," although such expenditures may be capitalized and amortized over a period of not less than 180 months. Start-up expenditures are defined as amounts (i) paid or incurred in connection with (I) investigating the creation or acquisition of an active trade or business, (II) creating an active trade or business, or (III) any activity engaged in for Profit and for the production of income before the day on which the active trade or business begins, in anticipation of such activity becoming an active trade or business, and (ii) that, if paid or incurred in connection with the operation of an existing active trade or business (in the same field as the trade or business referred to in (i) above), would be allowable as a deduction for the taxable year in which paid or incurred. Tax Code § 195(c)(1).

The Partnership intends to make payments to the Manager, as described in greater detail in this Memorandum. To be deductible, compensation paid to a general partner must be for services rendered by the partner other than in his capacity as a partner or for compensation determined without regard to Partnership income. Fees which are not deductible because they fail to meet this test may be treated as special allocations of income to the recipient partner (see Pratt v. Commissioner, 550 F.2d 1023 (5th Cir. 1977)), and thereby decrease the net loss or increase the net income among all partners. King Operating Corporation has been appointed the Manager for the Partnership's assets and is not a partner of the Partnership.

To the extent these expenditures described in this Memorandum are considered syndication costs (such as the fees paid to brokers and broker-dealers, and the fees paid for printing the Prospectus and possibly all or a portion of the Managing General Partner's management fee), they will be nondeductible by the Partnership. To the extent attributable to organization fees (such as the amounts paid for legal services incident to the organization of the Partnership), the expenditures may be amortizable over a period of not less than 180 months, commencing with the month the Partnership begins business, if the Partnership so elects; if no election is made, no deduction is available.

Finally, to the extent any portion of the expenditures would be treated as “start-up,” they could be amortized over a 180 month or longer period, provided the proper election was made.

The Managing General Partner has no opinion on the proper allocation of expenses among nondeductible syndication expenses, amortizable organization expenses, amortizable “start-up” expenditures, and currently deductible items, because the issues involve factual questions concerning both the nature of the services performed and to be performed and the reasonableness of amounts charged. If the IRS were to successfully challenge the Managing General Partner’s allocations, a Partner’s taxable income could be increased, thereby resulting in increased taxes and in liability for interest and penalties.

BASIS AND AT RISK LIMITATIONS

A Partner may deduct Partnership losses only to the extent these losses exceed the Partner’s adjusted tax basis in the Partnership. Tax Code § 704(d). A Partner’s initial adjusted tax basis in the Partnership will generally be equal to the cash invested increased by (i) additional amounts invested in the Partnership, including his share of net income, (ii) additional Capital Contributions, if any, and (iii) his share of Partnership borrowings, if any, based on the extent of his economic risk of loss for such borrowings. The adjusted tax basis will also generally be reduced by (i) his share of loss, (ii) his depletion deductions on his share of oil and gas income (until such deductions exhaust his share of the basis of property subject to depletion), (iii) distributions of cash and the adjusted basis of property other than cash made to him, and (iv) his share of reduction in the amount of indebtedness previously included in his basis. The adjusted tax basis cannot fall below zero. Treas. Reg. § 1.705-1(a). Upon a Partner’s tax basis hitting zero, the Managing General Partner may allocate additional losses at its discretion.

In addition, Tax Code § 465 provides that, if an individual or a closely held C (i.e., regularly taxed) corporation engages in any activity to which Tax Code § 465 applies, any loss from that activity is allowed only to the extent of the aggregate amount with respect to which the taxpayer is “at risk” for such activity at the close of the taxable year. Tax Code § 465(a)(1). A closely held C corporation is a corporation, more than fifty percent (50%) of the stock of which is owned, directly or indirectly, at any time during the last half of the taxable year by or for not more than five (5) individuals. Tax Code §§ 465(a)(1)(B) and 542(a)(2). For purposes of Tax Code § 465, a loss is defined as the excess of otherwise allowable deductions attributable to an activity over the income received or accrued from that activity. Tax Code § 465(d). Any such loss disallowed by Tax Code § 465 shall be treated as a deduction allocable to the activity in the first succeeding taxable year. Tax Code § 465(a)(2).

Tax Code § 465(b)(1) provides that a taxpayer will be considered as being “at risk” for an activity with respect to amounts including (i) the amount of money and the adjusted basis of other property contributed by the taxpayer to the activity, and (ii) amounts borrowed with respect to such activity to the extent that the taxpayer (I) is personally liable for the repayment of such amounts, or (II) has pledged property, other than property used in the activity, as security for such borrowed amounts (to the extent of the net fair market value of the taxpayer's interest in such property). No property can be considered as security if such property is directly or indirectly financed by indebtedness that is secured by property used in the activity. Tax Code § 465(b)(2). Further, amounts borrowed by the taxpayer shall not be considered if such amounts are borrowed (i) from any person who has an interest (other than an interest as a creditor) in such activity, or (ii) from a related person to a person (other than the taxpayer) having such an interest. Tax Code § 465(b)(3).

Related persons for purposes of Tax Code § 465(b)(3) are defined to include related persons within the meaning of Tax Code § 267(b) (that describes relationships between family members, corporations and shareholders, trusts and their grantors, beneficiaries and fiduciaries, and similar relationships), Tax Code § 707(b)(1) (that describes relationships between partnerships and their partners) and Tax Code § 52 (that describes relationships between persons engaged in businesses under common control). Tax Code § 465(b)(3)(C). Special ownership percentage limits of 10 percent or more can be made in determining who is a related person under Tax Code §§ 267 and 707. Tax Code §465(b)(3).

Finally, no taxpayer is considered at risk with respect to amounts for which the taxpayer is protected against loss through nonrecourse financing, guarantees, stop loss agreements, or other similar arrangements. Tax Code § 465(b)(4).

The Tax Code provides that a taxpayer must recognize taxable income to the extent that his "at risk" amount is reduced below zero. This recaptured income is limited to the sum of the loss deductions previously allowed to the taxpayer, less any amounts previously recaptured. A taxpayer may be allowed a deduction for the recaptured amounts included in his taxable income when he increases his amount "at risk" in a subsequent taxable year.

The Treasury has published proposed regulations relating to the at-risk provisions of Tax Code § 465. These proposed regulations provide that a taxpayer's at-risk amount will include "personal funds" contributed by the taxpayer to an activity. Prop. Treas. Reg. § 1.465-22(a). "Personal funds" and "personal assets" are defined in Prop. Treas. Reg. § 1.465-9(f) as funds and assets that (i) are owned by the taxpayer, (ii) are not acquired through borrowing, and (iii) have a basis equal to their fair market value.

In addition to a taxpayer's amount at risk being increased by the amount of personal funds contributed to the activity, the excess of the taxpayer's share of all items of income received or accrued from an activity during a taxable year over the taxpayer's share of allowable deductions from the activity for the year will also increase the amount at risk. Prop. Treas. Reg. § 1.465-22. A taxpayer's amount at risk will be decreased by (i) the amount of money withdrawn from the activity by or on behalf of the taxpayer, including distributions from a partnership, and (ii) the amount of loss from the activity allowed as a deduction under Tax Code § 465(a). Id.

The Partners will purchase the Partnership Units by paying cash to the Partnership. To the extent the cash contributed are "personal funds" of the Partners, the Partners should be considered at risk for those funds. The Managing General Partner believes that neither the at-risk rules nor the adjusted basis limitations will limit the deductibility of losses generated from the Partnership to the extent the contributed cash constitutes "personal funds."

PASSIVE LOSS AND CREDIT LIMITATIONS

A. Introduction

Tax Code § 469 provides that the deductibility of losses generated from passive activities will be limited for certain taxpayers. The passive activity loss limitations apply to individuals, estates, trusts, and personal service corporations as well as, to a lesser extent, closely held C corporations. Tax Code § 469(a)(2).

The definition of a "passive activity" generally encompasses all rental activities as well as all activities involving the conduct of a trade or business with respect to which the taxpayer does not "materially participate." Tax Code § 469(c). Notwithstanding this general rule, however, the term "passive activity" does not include "any working interest in any oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to such interest." Tax Code § 469(c)(3),(4).

A passive activity loss is the amount by which the aggregate losses from all passive activities for the taxable year exceed the aggregate income from all passive activities for such year. Tax Code § 469(d)(1).

Classifying an activity as passive will result in the income and expenses generated by that activity being treated as "passive" except to the extent that any of the income is "portfolio" income and except as otherwise provided in regulations. Tax Code § 469(e)(1)(A). Portfolio income is income from interest, dividends, royalties, or similar sources not derived in the ordinary course of a trade or business. Income that is neither passive nor portfolio is "net active income." Tax Code § 469(e)(2)(B).

With respect to the deductibility of passive activity losses, individuals and personal service corporations will be entitled to deduct such amounts only to the extent of their passive income whereas closely held C corporations (other than personal service corporations) can offset passive activity losses against both passive and net active income, but not against portfolio income. Tax Code § 469(a)(1), (e)(2). In calculating passive income and loss, however, all activities of the taxpayer are aggregated. Tax Code § 469(d)(1). Passive activity losses disallowed because of the above rules will be suspended and can be carried forward indefinitely to offset future passive (or passive and active, in the case of a closely held C corporation) income. Tax Code § 469(b).

Upon the disposition of an entire interest in a passive activity in a fully taxable transaction not involving a related party, any passive loss that was suspended by the provisions of the Tax Code § 469 passive activity rules are deductible from either passive or non-passive income. The deduction must be reduced, however, by the amount of income or gain realized from the activity in previous years. Tax Code § 469(g)

As noted above, a passive activity includes an activity with respect to which the taxpayer does not "materially participate." A taxpayer will be considered as materially participating in a venture only if the taxpayer is involved in the operations of the activity on a "regular, continuous, and substantial" basis. Tax Code § 469(h)(1). With respect to the determination as to whether a taxpayer's participation in an activity is material, temporary regulations issued by the IRS provide that, except for limited partners in a limited partnership, an individual will be treated as materially participating in an activity if and only if (i) the individual participates in the activity for more than 500 hours during such year, (ii) the individual's participation in the activity for the taxable year constitutes substantially all of the participation in such activity of all individuals for such year, (iii) the individual participates in the activity for more than 100 hours during the taxable year, and such individual's participation in such activity is not less than the participation in the activity of any other individual for such year, (iv) the activity is a trade or business activity of the individual, the individual participates in the activity for more than 100 hours during such year, and the individual's aggregate participation in all significant participation activities of this type during the year exceeds 500 hours, (v) the individual materially participated in the activity for 5 of the last 10 years, or (vi) the activity is a personal service activity and the individual materially participated in the activity for any 3 preceding years. Temp. Treas. Reg. § 1.469-5T(a).

B. Additional General Partnership Units

The Managing General Partner has no opinion regarding whether the IRS will consider the Partner's participation to be "material" because of the fact-based material participation factors. However, the "working interest" exception to the passive activity rules applies without regard to the level of the taxpayer's participation. Nevertheless, the presence or absence of material participation may be relevant for purposes of determining whether the investment interest expense rules of Tax Code § 163(d) apply to limit the deductibility of interest incurred in connection with any borrowings of a Partner.

As noted above, the term "passive activity" does not include any working interest in any oil or gas property that the taxpayer holds directly or through an entity which does not limit the taxpayer's liability with respect to such interest. The Partnership will hold working interest in oil and gas properties. Further because the Additional General

Partners are general partners, the Partnership will not operate to limit Additional General Partners' liability with respect to such working interest liabilities.

Temp. Treas. Reg. § 1.469-1T(e)(4)(v) describes an interest in an entity that limits a taxpayer's liability with respect to the drilling or operation of a well as (i) a limited partnership interest in a partnership in which the taxpayer is not a general partner, (ii) stock in a corporation, or (iii) an interest in any other entity that, under applicable state law, limits the interest holder's potential liability. For purposes of this provision, indemnification agreements, stop loss arrangements, insurance or any similar arrangements or combinations thereof are not considered in determining whether a taxpayer's liability is limited. Id. Some Partners may invest as Additional General Partners, not as Limited Partners or stockholders. Further, the liability of the Additional General Partners will not be otherwise limited under applicable state law.

The Joint Committee on Taxation's General Explanation of the Tax Reform Act of 1986 (the "Bluebook") indicates that a "working interest" is an interest with respect to an oil and gas property that is burdened with the cost of development and operation of the property, and that generally has characteristics such as responsibility for signing authorizations for expenditures with respect to the activity, receiving periodic drilling and completion reports and reports regarding the amount of oil extracted, voting rights proportionate to the percentage of the working interest possessed by the taxpayer, the right to continue activities if the present operator decides to discontinue operations, a proportionate share of tort liability with respect to the property and some responsibility to share in further costs with respect to the property in the event a decision is made to spend more than amounts already contributed. The Regulations define a working interest as "a working or operating mineral interest in any tract or parcel of land (within the meaning of § 1.612-4(a))." Treas. Reg. § 1.469-1(e)(4)(iv). Under Treas. Reg. § 1.614-2(b), an operating mineral interest is defined as:

> a separate mineral interest as described in § 614(a), in respect of which the costs of production are required to be taken into account by the taxpayer for purposes of computing the limitation of 50 percent of the taxable income from the property in determining the deduction for percentage depletion computed under § 613, or such costs would be so required to be taken into account if the . . . well . . . were in the production stage. The term does not include royalty interests or similar interests, such as production payments or net profits interests. For the purpose of determining whether a mineral interest is an operating mineral interest, "costs of production" do not include intangible drilling and development costs, exploration expenditures under § 615, or development expenditures under § 616. Taxes, such as production taxes, payable by holders of non-operating interests are not considered costs of production for this purpose. A taxpayer may not aggregate operating mineral interests and non-operating mineral interests such as royalty interests.

The Managing General Partner intends for the Partnership to acquire and hold only operating mineral interests, as defined in Tax Code § 614(d) and the regulations thereunder, and that none of the Partnership's revenues will be from non-working interests.

To the extent that the Partners have working interests in the activities of the Partnership for purposes of Tax Code § 469, the Managing General Partner believes that a Partner's Interest(s) in the Partnership generally will not be considered a passive activity within the meaning of Tax Code § 469 and losses generated while such Partner Interest(s) are held will not be limited by the passive activity provisions.

INTANGIBLE DRILLING AND DEVELOPMENT COSTS DEDUCTIONS

Generally, taxpayers cannot deduct capital expenditures under Tax Code § 263(a). See also Treas. Reg. § 1.461-1(a)(2). In Indopco, Inc. v. Commissioner, 503 U.S. 79 (1992), the Supreme Court said that the costs should be capitalized when they provide benefits that extend beyond one tax year. However, Congress granted to the Treasury Secretary the authority to prescribe regulations allowing taxpayers to expense, rather than capitalize, intangible drilling and development costs ("IDC"). Tax Code § 263(c). The Treasury Regulations generally state that the option to expense IDC applies only to expenditures for drilling and development items without salvage value. Treas. Reg. § 1.612-4.

The Partnership (not the Partner) may opt to expense or capitalize IDC in the year in which the deduction is to be taken. Tax Code § 703 and Treas. Reg. § 1.703-1(b). The Managing General Partner plans for the Partnership to elect to expense IDC in accordance with Treas. Reg. § 1.612-4. This generally means that Partners will be entitled to deduct IDC against any form of income in the year in which the investment is made, provided drilling operations on the Partnership Wells are commenced within the first ninety days of the following year; and that Partners will be entitled to deduct IDC against passive income under the same terms. Passive income credit limitations and the alternative minimum tax may limit the benefit of an IDC deduction.

A. Classification of Costs

IDC generally consists of costs with no salvage value. Treas. Reg. § 1.612-4(a) provides IDC examples, including all amounts paid for labor, fuel, repairs, hauling, and supplies, or any of them, that are used (i) in the drilling, shooting, and cleaning of wells, (ii) in such clearing of ground, draining, road making, surveying, and geological works as are necessary in the preparation for the drilling of wells, and (iii) in the construction of such derricks, tanks, pipelines, and other physical structures as are necessary for the drilling of wells and the preparation of wells for the production of oil or gas. The IRS, in Rev. Rul. 70-414, 1970-2 C.B. 132, limits IDC items. The ruling states that the Managing General Partner cannot elect to expense the following under Treas. Reg. §1.612-4(a): (i) oil well pumps (upon initial completion of the well), including the necessary housing structures; (ii) oil well pumps (after the well has flowed for a time), including the necessary housing structures; (iii) oil well separators, including the necessary housing structures; (iv) pipelines from the wellhead to oil storage tanks on the producing lease; (v) oil storage tanks on the producing lease; (vi) salt water disposal equipment, including any necessary pipelines; (vii) pipelines from the mouth of a gas well to the first point of control, such as a common carrier pipeline, natural gasoline plant, or carbon black plant; (viii) recycling equipment, including any necessary pipelines; and (ix) pipelines from oil storage tanks on the producing leasehold to a common carrier pipeline.

The IRS can second guess the Partnership's choice to expense certain costs as IDC. In Revenue Ruling 73-211, the IRS held to the extent that a turnkey drilling price exceeds costs that would have been incurred in an arm's length transaction, such excess is to be treated as a capitalized cost of the working interest. See also Bernuth v. Comm., 57 TC 225, (1971) aff'd, 470 F.2d 710 (2nd Cir. 1972). To the extent the Partnership's drilling price meets these reasonable price standards and to the extent such amounts are not allocable to tangible property, leasehold costs, and the like, the amounts paid to the Managing General Partner under the drilling contract should qualify as IDC and should be deductible at the time described below under "Timing of Deductions." That portion of the amount paid to the Managing General Partner that is more than the amount that would be charged by an independent driller under similar conditions will not qualify as IDC and will be required to be capitalized.

In order to deduct IDCs, a taxpayer must possess a working interest that is an economic interest in an oil and gas property. Code Section 263(c); Treas. Reg. Section 1.612-4. Under Treas. Reg. Section 1.611-1(b), an interest in oil and gas properties is deemed to be an economic interest "in every case in which the taxpayer has acquired by investment, an interest in any form of legal relationship in which the taxpayer must look to income derived from the extraction of the mineral property in order for its return of capital." If there is a separate source of capital recovery other than sale of the extracted hydrocarbons or sale of the oil and gas properties/ Wells, then such interest is not an economic interest. Anderson v. Helvering 310 U.S. 404 (1940); PLR 9319038.

The Partnership intends to acquire fractional working interests in Wells that are not yet producing oil and gas. The Partnership may not be the operator of some of these Wells; however, the Partnership expects to be responsible for its contracted proportionate share of expenses and these contracts are expected to permit the Partnership to only recover invested capital through the sale of extracted hyrdocarbons or divesture of the property.

The Partnership may acquire a participating working interest of a Well which the operator may retain a portion of said working interest which is commonly referred to as a "carried interest". For example, the Partnership may be conveyed only a 20% working interest in a Well, but due to the operator's carried interest, the Partnership may be contractually required to pay 28% of the Well's expenses. The Partnership believes that the presence of the carried interest would represent the Partnership's "economic interest". Therefore, the Partnership will deduct IDCs for the contracted working interest associated with such Well. Since IDC are based on costs incurred by a taxpayer, and the Partnership will be contractually obligated to pay the greater share of Well expenses attributable to this contracted working interest percentage, the Partnership intends to claim the entire amount paid for these eligible expenses as IDC on the Partnership's annual Partnership returns.

No assurance can be made that the IRS will agree with this fact-based assessment or agree with the Managing General Partner's determination that certain project expenditures that can be expensed rather than capitalized.

B. Timing of Deductions

Partnerships may expense IDCs under Tax Code § 263(c) and Treas. Reg. § 1.612-4. If the Partnership expenses the IDC, the taxpayer may elect to follow that choice or to capitalize all or a part of the IDC and amortize the same on a straight-line basis over a sixty-month period, beginning with the taxable month in which such expenditure is made. Tax Code §§ 59(e)(1) and (2)(c).

The timing of the taxpayer's IDC deduction depends on the taxpayer's method of accounting. The Partnership will use the accrual method of accounting and will recognize income upon the occurrence of all events that accurately fix the right to receive and the amount of this income. Treas. Reg. § 1.451-1(a). The Partnership will also recognize expenses upon the occurrence of all events that accurately fix the right to obligation to pay, and the amount obligated. Treas. Reg. § 1.461-1(a)(2). Further, Tax Code § 461(h)(1) provides that ". . . the events test shall not be treated as met any earlier than when economic performance with respect to such item occurs."

For oil and gas wells, the Tax Code states that "economic performance" occurs within a tax year if the drilling of the well starts before the close of the 90th day after the close of that tax year. Tax Code § 461(i)(2). However, the maximum allowed deduction for prepaid expenses under this exception is limited to the amount of the Partner's "cash basis" in the Partnership. Tax Code § 461(i)(2)(B)(i). This "cash basis" equals the Partner's adjusted basis in the Partnership, determined without regard to (i) any liability of the Partnership or (ii) any amount borrowed by the Partner relating to the Partnership, provided that the Partnership, its promoter, organizer, or management arranged the loan or that the loan was secured by Partnership assets. Tax Code § 461(i)(2)(C). Further, the Managing General Partner believes that the Partnership will not have any such liability referred to in Tax Code § 461(i)(2)(C), and the Partners will not so incur any such debt to result in the application of the limiting provisions contained in Tax Code § 461(i)(2)(B)(i).

Caselaw also limits the deductibility of prepaid IDC. Prepaid IDC is deductible when paid if (i) the expenditure constitutes a payment that is not merely a deposit, (ii) the payment is made for a business purpose, and (iii) deductions attributable to such outlay do not result in a material distortion of income. See Keller v. Commissioner, 79 T.C. 7 (1982), aff'd, 725 F.2d 1173 (8th Cir. 1984), Rev. Rul. 71-252, 1971-1 C.B. 146, Pauley v. U.S., 63-1 U.S.T.C. paragraph 9280 (S.D. Cal. 1963), Rev. Rul. 80-71, 1980-1 C.B. 106, Jolley v. Commissioner, 47 T.C.M. 1082 (1984), Dillingham v. U.S., 81-2 U.S.T.C. paragraph 9601 (W.D. Okla. 1981), and Stradlings Building Materials, Inc. v. Commissioner, 76 T.C. 84 (1981). Generally, these requirements may be met by a showing of a legally binding obligation (i.e., the payment was not merely a deposit), of a substantial legitimate business purpose for the payment, that performance of the services was required within a reasonable time, and of an arm's-length price. Similar requirements apply to cash basis taxpayers seeking to deduct prepaid IDC.

Intangible costs deductions for 2024 will only be available for commencing drilling operations on a Partnership Wells by no later than March 30, 2025, if the expenses have been prepaid by December 31, 2024.

The IRS has challenged the timing of the deduction of IDC when the wells giving rise to such deduction have been completed in a year after the year of prepayment. The decisions noted above hold that prepayments of IDC by a cash basis taxpayer are, under certain circumstances, deductible in the year of prepayment if some work is performed in the year of prepayment even though the well is not completed that year.

In Keller v. Commissioner, supra, the Eighth Circuit Court of Appeals applied a three-part test for determining the current deductibility of prepaid IDC by a cash basis taxpayer, namely whether (i) the expenditure was a payment or a mere deposit, (ii) the payment was made for a valid business purpose and (iii) the prepayment resulted in a material distortion of income. The facts in that case dealt with two different forms of drilling contracts: footage or day-work contracts and turnkey contracts. Under the turnkey contracts, the prepayments were not refundable in any event, but in the event, work was stopped on one well the remaining unused amount would be applied to another well to be drilled on a turnkey basis. Contrary to the IRS's argument that this substitution feature rendered the payment a mere deposit, the court in Keller concluded that the prepayments were indeed "payments" because the taxpayer could not compel a refund. The court further found that the deduction clearly reflected income because under the unique characteristics of the turnkey contract the taxpayer locked in the price and shifted the drilling risk to the contractor, for a premium, effectively getting its bargained for benefit in the year of payment. Therefore, the court concluded that the cash basis taxpayers in that case properly could deduct turnkey payments in the year of payment. With respect to the prepayments under the footage or day-work contracts, however, the court found that the payments were mere deposits on the facts of the case, because the Partnership had the power to compel a refund. The court was also unconvinced as to the business purpose for prepayment under the footage or day-work contracts, primarily because the testimony indicated that the drillers would have provided the required services with or without prepayment.

The IRS has adopted the position that the relationship between the parties may provide evidence that the drilling contract between the parties requiring prepayment may not be a bona fide arm's-length transaction, in which case a portion of the prepayment may be disallowed as being a "non-required payment." § 4236, Internal Revenue Service Examination Tax Shelters Handbook (6-27-85). A similar position is taken by the IRS in the Tax Shelter Audit Technique Guidelines. Internal Revenue Service Examination Tax Shelter Handbook.

The IRS has formally adopted its position on prepayments to related parties in Revenue Ruling 80-71, 1980-1 C.B. 106. In this ruling, a subsidiary corporation, that was a general partner in an oil and gas partnership, prepaid the partnership's drilling and completion costs under a turnkey contract entered with the corporate parent of the general partner. The agreement did not provide for any date for commencing drilling operations and the contractor, which did not own any drilling equipment, was to arrange for the drilling equipment for the wells through subcontractors. Revenue Ruling 71-252, supra, was factually distinguished on the grounds of the business purpose of the transaction, immediate expenditure of prepaid receipts, and completion of the wells within two and one-half months. Rev. Rul. 80-71 found that the prepayment was not made in accordance with customary business practice and held on the facts that the payment was deductible in the tax year that the related general contractor paid the independent subcontractor.

However, in Tom B. Dillingham v. United States, supra, the court held that, on the facts before it, a contract between related parties requiring a prepaid IDC did give rise to a deduction in the year paid. In that case, Basin Petroleum Corp. ("Basin") was the general partner of several drilling partnerships and served as the partnership operator and general contractor. As general contractor, Basin was to conduct the drilling of the wells at a fixed price on a turnkey basis under an agreement that required payment prior to the end of the year in question. The stated reason for the prepayment was to provide Basin with working capital for the drilling of the wells and to temporarily provide funds to Basin for other operations. The agreement required drilling to commence within a reasonable period, and all wells were completed within the following year. Some of the wells were drilled by Basin with its own rigs and some were drilled by subcontractors. The court stated:

> The fact that the owner and contractor is the general partner of the partnership-owner does not change this result where, as here, the Plaintiffs have shown that prepayment was required for a legitimate business purpose and the transaction was not a sham to merely permit Plaintiff to control the timing of the deduction. IRC, Sec. 707(a). Plaintiffs were entitled to rely upon Revenue Ruling 71-252 by reason of Income Tax Regulations 26 C.F.R. § 601.601(d)(2)(v)(e).

Notwithstanding the foregoing, the Managing General Partner can make no assurance can be given that the IRS will not challenge the current deduction of prepaid IDC. If the

IRS were successful with such challenge, the Partners' deductions for IDC would be deferred to later years.

The timing of the deductibility of prepaid IDC is inherently a factual determination that is to a large extent predicated on future events.

The Management and Maintenance Agreement provides for precise contractual requirements for the prepayment of costs to the Manager. The Managing General Partner is assuredly optimistic these contractual requirements comport with the legislative intent and past judicial rulings regarding the prepayment of IDC.

C. Allocation of IDC Deductions

The intangible drilling and completion costs will be allocated pro rata basis within the Partnership based on percentage ownership. In Levy v. Commissioner, 732 F.2d 1435 (9th Cir. 1984), the Ninth Circuit Court of Appeals allowed a taxpayer who had invested in oil and gas properties by paying both cash and a note to allocate the IDCs first to the cash portion of the investment that allowed for current-year deduction, and secondarily to the note portion of the investment, that did not allow for current-year deduction. The IRS had argued that the IDC should have been allocated on a pro rata basis against both forms of payment. Subsequently, the IRS's Chief Counsel released an Action on Decision statement. The Chief Counsel said that the IRS would not appeal this decision but disagreed with it. The Action on Decision stated that the IRS's position was that a taxpayer cannot allocate intangible drilling costs against different types of payment except in a pro rata fashion. IRS AOD 1984-055 (September 13, 1984).

The Managing General Partner believes that the pro rata allocation of intangible drilling and completion costs within the Partnership comply with the Chief Counsel's pro rata distribution requirement. But the Managing General Partner can make no assurance that the IRS will agree with this position.

D. Recapture of IDC

The IRS can recapture expensed IDC as ordinary income upon certain transfers of oil and gas property interests. IDC previously deducted that were directly or indirectly allocable to the property and that would have been included in the adjusted basis of the property is recaptured to the extent of any gain realized upon the disposition of the property. Treasury regulations provide that recapture is determined at the Partner level (subject to certain anti-abuse provisions). Treas. Reg. § 1.1254-5(b). If the Partnership transfers only a portion of its whole oil and gas property interest against which IDC have been allocated, the IDC related to the whole property can be recaptured to the extent that a gain was realized on the partial sale of the property. If the Partnership transfers an undivided interest in a property, such as a fractional working interest (as opposed to the disposition of a portion of the property), a proportionate part of the IDC with respect to the property is treated as allocable to the transferred undivided interest to the extent of any realized gain. Treas. Reg. § 1.1254-1(c).

The Managing General Partner strongly recommends that Additional General Partners consult their tax advisors in considering whether to convert to being a Limited Partner as provided for in the Limited Partnership Agreement. There is a risk that upon such conversion that the IRS may seek to recapture IDC deductions that would not have been available to Limited Partners. Accordingly due caution should be used when making the conversion decision.

DEPLETION DEDUCTIONS

The owner of an economic interest in an oil and gas property may claim the greater of percentage depletion or cost depletion on qualified oil and gas properties. In the case of partnership taxed as partnerships, the depletion allowance must be computed separately by each partner and not by the partnership. Tax Code § 613A(c)(7)(D). Notwithstanding this requirement, however, the Partnership, pursuant to § 5.1(d) of the Partnership Agreement, will compute a “simulated depletion allowance” at the Partnership level, solely for the purposes of maintaining Capital Accounts. Tax Code §§ 613A(d)(2) and 613A(d)(4).

Cost depletion for any year is determined by multiplying the number of units (e.g., barrels of oil or Mcf of gas) sold during the year by a fraction, the numerator of which is the cost of the mineral interest and the denominator of which is the estimated recoverable units of reserve available as of the beginning of the depletion period. See Treas. Reg. § 1.611-2(a). In no event can the cost depletion exceed the adjusted basis of the property to which it relates.

Percentage depletion is generally available only with respect to the domestic oil and gas production of certain “independent producers.” To qualify as an independent producer, the taxpayer, either directly or through certain related parties, may not be involved in the refining of more 50,000 barrels of oil (or equivalent of gas) on any day during the taxable year or in the retail marketing of oil and gas products exceeding $5 million per year in the aggregate.

In general, (i) component members of a controlled group of corporations, (ii) corporations, trusts, or estates under common control by the same or related persons and (iii) members of the same family (an individual, his spouse and minor children) are aggregated and treated as one taxpayer in determining the quantity of production (barrels of oil or cubic feet of gas per day) qualifying for percentage depletion under the independent producer’s exemption. Tax Code § 613A(c) (8). No aggregation is required among Partners or between a Partner and a Partnership. An individual taxpayer is related to an entity engaged in refining or retail marketing if he owns 5% or more of such entity. Tax Code § 613A(d)(3).

Percentage depletion is a statutory allowance pursuant to which, under current law, a deduction equal to 15% of the taxpayer's gross income from the property is generally allowed in any taxable year, in general not to exceed (i) 100% of the taxpayer's taxable income from the property (computed without the allowance for depletion) or (ii) 65% of the taxpayer's taxable income for the year (computed without regard to percentage depletion and net operating loss and capital loss carrybacks). Tax Code §§ 613(a) and 613A(d)(1). For purposes of computing the percentage depletion deduction, "gross income from the property" does not include any lease bonus, advance royalty, or other amount payable without regard to production from the property. Tax Code § 613A(d)(5). Depletion deductions reduce the taxpayer's adjusted basis in the property. However, unlike cost depletion, deductions under percentage depletion are not limited to the adjusted basis of the property; the percentage depletion amount continues to be allowable as a deduction after the adjusted basis has been reduced to zero.

Percentage depletion will be available, if at all, only to the extent that a taxpayer's average daily production of domestic crude oil or domestic natural gas does not exceed the taxpayer's depletable oil quantity or depletable natural gas quantity, respectively. Generally, the taxpayer's depletable oil quantity equals 1,000 barrels and depletable natural gas quantity equals 6,000,000 cubic feet. Tax Code § 613A(c)(3) and (4). In computing his individual limitation, a Partner will be required to aggregate his share of the Partnership's oil and gas production with his share of production from all other oil and gas investments. Tax Code § 613A(c). Taxpayers who have both oil and gas production may allocate the deduction limitation between the two types of production.

The availability of a depletion and any limits on such deductions, whether cost or percentage, will be determined separately by each Partner. Each Partner must separately keep records of his share of the adjusted basis in an oil or gas property, adjust such share of the adjusted basis for any depletion taken on such property, and use such adjusted basis each year in the computation of his cost depletion or in the computation of his gain or loss on the disposition of such property. These requirements may place an administrative burden on a Partner. For properties placed in service after 1986, depletion deductions, to the extent they reduce the basis of an oil and gas property, are subject to recapture under Tax Code § 1254.

The Managing General Partner will provide information relating to depletion to the Partners, but the election of the type of and amount of depletion will be made by the Partners. Thus, the Managing General Partner has no opinion on the tax treatment of the depletion allowance.

Publicly Traded Partnerships

The Managing General Partner does not expect the Partnership to ever become a publicly traded partnership, so prospective partners should consult their tax advisors to learn about the taxation of publicly traded partnerships. But, in any event, income and losses from publicly traded partnerships will be generally treated as portfolio income or losses under the Tax Code unless the Partnership meets certain parameters set out in the Tax Code. So, investors should understand that, should this Partnership become a publicly traded partnership, their ability to offset income or losses from this Partnership, could be very limited.

State Tax Considerations

States tax oil and gas production by imposing severance taxes, income taxes and other similar taxes. Severance taxes are material to the cashflows from oil and gas production and will impact net returns. Additionally, local governments impose property taxes on leasehold interest.

The following table provides the current severance taxes and income taxes for several relevant oil and gas producing states.

State	Severance Taxes	Income Taxes
Colorado	5% with an 87.5% tax credit for ad valorem taxes paid and exemption for stripper wells. Each county also has severance taxes.	4.63% of income
Illinois	Severance tax is 3% of gross value of oil or gas produced for first two years after the wells is drilled. Thereafter, the severance tax is: 1) 6% of the gross value of the gas produced; 2) 3% of the gross value of the oil produced if the average daily production from the well during the month is less than 25 barrels; 3) 4% of the gross value of the oil produced if the average daily production from the well during the month is 25 barrels or more but less than 50 barrels; 4) 5% of the gross value of the oil produced if the average daily production from the well during the month is 50 barrels or more but less than 100 barrels; and 5) 6% of the gross value of the oil produced if the average daily production from the well during the month is 100 barrels or more.	5.0% state income tax
Louisiana	12.5% on oil and 16 cents per 1,000 cubic feet on gas	2.0% - 6.0% depending on income amount
Kansas	8% of the gross value of all oil or gas	2.70% to 4.90% state income tax depending on income bracket

State	Severance Taxes	Income Taxes
New Mexico	1) Severance - 3.75% of value of oil, other liquid hydrocarbons, natural gas and carbon dioxide 2) Oil and Gas Emergency School Tax - 3.15% of oil, other liquid hydrocarbons and carbon dioxide; 4% of natural gas 3) Natural Gas Processor's Tax - $0.0220/mmBtu tax on the volume 4) Oil and Gas Ad Valorem Production Tax - Based on property tax in the district of production. Oil and Gas Conservation Tax - 0.19% of value	1.70% to 4.90% state income tax depending on income bracket
North Dakota	A 5% or 6% extraction tax rate plus a 5% production tax on oil for a total of 10-11% tax on oil production	1.51% to 3.99% state income tax depending on income bracket
Ohio	$0.20/ bbl of oil and $0.03/ 1,000 cubic feet of natural gas	0.54% to 5.39% state income tax depending on income bracket
Oklahoma	Basic rate of 7% upon the production of oil and gas, with a 2% gross production tax on oil and gas from newly-spudded wells for the first 36 months of production	0.50% to 5.25% state income tax depending on income bracket
Pennsylvania	A per-well "impact fee"	9.9% state income tax
Texas	Gas severance tax = 7.5% of market value of gas produced and saved. Oil severance tax = 4.6% of market value of oil produced. Condensate tax = 4.6% of market value	Texas has a margin tax which is in the amount of 0.75% of the lowest margin between 1) total revenue and cost of goods sold; 2) total revenue minus compensation; 3) total revenue times 70%; or 4) total revenue minus $1,110,000. No taxes will be due if total revenue is below $1,110,000
West Virginia	5% of gross value of oil or gas produced	6.5% state income tax

Disclaimer

Please consult your tax advisor for specific information relating to the tax advantages available to partners. This is not tax advice as we are not a licensed tax professional. This information is for reference purposes only and can be easily verified by a licensed tax professional.

CONFLICTS OF INTEREST AND TRANSACTIONS WITH THE MANAGING GENERAL PARTNER

Conflicts of Interest

- King, the Operator, is an Affiliate of the Partnership and the Managing General Partner.

The Partnership is subject to various conflicts of interest arising out of its relationship with the Managing General Partner. These conflicts include, but are not limited to, the following:

Future Programs by the Operator, the Managing General Partner, and their Affiliates. The Operator, the Managing General Partner and their Affiliates have the right and expects to continue to organize and manage oil and gas drilling programs in the future like the Partnership and may conduct operations now and in the future jointly or separately, on its own behalf or for other private or public investors. To the extent Affiliates of the Managing General Partner invest in the Partnership or other partnerships or entities sponsored by the Managing General Partner, conflicts of interest will arise.

Fiduciary Responsibility of the Managing General Partner. The Managing General Partner is accountable to the Partnership as fiduciary and consequently has a duty to exercise good faith and to deal fairly with the Partners in handling the affairs of the Partnership. While the Managing General Partner will try to avoid conflicts of interest to the extent possible, such conflicts nevertheless may occur and, in such event, the actions of the Managing General Partner may not be the most advantageous to the Partnership and could fall short of the full exercise of such fiduciary duty. In the event the Managing General Partner should breach its fiduciary responsibilities, a Partner would be entitled to an accounting and to recover any economic losses caused by such Breach.

Independent Representation in Indemnification Proceeding. Counsel represents the Managing General Partner. However, in the event of an indemnification proceeding or lawsuit between the Managing General Partner and a Partner, the Managing General Partner upon advice of legal counsel may cause the Partnership to retain separate and independent counsel to represent the Partnership in such proceeding.

Managing General Partner's Interest. Although the Managing General Partner believes that its interest in Partnership Profits, Losses and cash distributions is equitable (See "Participation in Costs and Revenues"), such interest was not determined by arm's-length negotiation.

Conflicts with Other Programs. The Managing General Partner realizes that its conduct and the conduct of its Affiliates in connection with the other drilling programs could give rise to a conflict of interest between the position of the Managing General Partner as the Managing General Partner and the position of the Managing General Partner or one of its Affiliates as general partner or sponsor of such additional programs. In resolving any such conflicts, each partnership will be treated equitably with such other partnerships on a basis consistent with the funds available to the partnerships and the time limitations on the investment of funds. However, no provision has been made for an independent review of conflicts of interest.

Notwithstanding any provision to the contrary, the Managing General Partner and its Affiliates may not Profit by drilling in contravention of their fiduciary obligations to the Partners. Any services not otherwise described in this Memorandum for which the Managing General Partner or any of its Affiliates are to be compensated will be embodied in a written contract which precisely describes the services to be rendered and the compensation to be paid.

All benefits from marketing arrangements or other relationships affecting the property of the Managing General Partner or its Affiliates and the Partnership will be fairly and equitably apportioned according to the respective interest of each.

FIDUCIARY RESPONSIBILITIES AND INDEMNIFICATION OF THE MANAGING GENERAL PARTNER

- The Managing General Partner is accountable to the Partnership as a fiduciary and must exercise good faith and integrity in respecting the Partnership's affairs.

- The Partnership Agreement includes provisions indemnifying the Managing General Partner against liability for losses suffered by the Partnership resulting from actions by the General Partner.

The Managing General Partner is accountable to the Partnership as a fiduciary and consequently must exercise good faith and integrity in handling Partnership affairs. Under Texas law, the Managing General Partner would be required to prudently supervise and direct the activities of the Partnership. Moreover, the Managing General Partner must always act in the reasonable best interests of the Partnership and the Partners. Prospective Partners who have questions concerning the responsibilities of the Managing General Partner should consult their own counsel.

The Partnership Agreement provides for indemnification of the Managing General Partner against liability for losses arising from Partnership affairs provided that the Managing General Partner did not act or fail to act with fraud, bad faith, gross negligence, or willful misconduct.

In the U.S. Securities and Exchange Commission's opinion, indemnification provisions indemnify for liabilities arising under the Securities Act of 1933 and the Securities

Exchange Act of 1934 are against public policy, and, therefore, unenforceable. Consequently, unless Courts rule otherwise, the Managing General Partner will not be indemnified for liabilities arising under Federal securities laws unless (1) there has been a successful adjudication on the merits of each count involving securities law violations or (2) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction or (3) a court of competent jurisdiction approves a settlement of such claims and finds that indemnification of the settlement and the related costs should be made after having been advised of U.S. Securities and Exchange Commission's and relevant state securities administrators' positions on indemnification of securities violations claims. A successful indemnification claim would deplete Partnership assets by the amount paid. A Limited Partner may have a narrower scope of legal actions due to the indemnification provision than if the indemnification provision was omitted.

LEGAL PROCEEDINGS

The Managing General Partner knows of no litigation pending or threatened to which the Managing General Partner or the Partnership is subject or may be a party, and no such proceedings are known to be contemplated by governmental authorities or other parties.

SUMMARY OF THE PARTNERSHIP AGREEMENT

The rights and obligations of the Partners will be governed by the Limited Partnership Agreement ("Partnership Agreement") in the form attached to this Memorandum as Exhibit B. Each prospective investor, together with their personal advisers, should carefully study the Partnership Agreement in its entirety before submitting a Subscription. The following statements concerning the Partnership Agreement are merely an outline, do not purport to be complete and in no way amend or modify the Partnership Agreement. References to sections below refer to sections of the Partnership Agreement.

Responsibility of the Managing General Partner

The Managing General Partner will have the exclusive management and control of all aspects of the business of the Partnership. Section 5.01. No Limited Partner or Additional General Partner will have any voice in the day-to-day business operations of the Partnership. Section 6.02. The Managing General Partner is authorized to delegate and subcontract its duties under the Partnership Agreement to others, including entities related to it.

Liability of Limited Partners (not applicable to Additional General Partners)

The Partnership will be governed by the Texas Business Organizations Code under which a Limited Partner's liability for the obligations of the Partnership will be limited to the Limited Partners' Capital Contributions, the Limited Partners' shares of Partnership assets and for the return of any part of Partnership Capital Contributions for a period of one year after such return (or six years in the event such return is in violation of the Partnership Agreement), but only to the extent necessary to discharge the Partnership's liabilities to creditors who extended credit to the Partnership prior to such return. Additional General Partners will not have such limitation of their liabilities. A Limited Partner will not otherwise be liable for the obligations of the Partnership unless, in addition to the exercise of the Limited Partner's rights and powers as a Limited Partner, such person takes part in the control of the business of the Partnership. Under Section 4.02 of the Partnership Agreement, the Limited Partners, however, are obligated to make additional Capital Contributions if the Managing General Partner determines such capital is needed for the Partnership's business.

Liability of Additional General Partners (not applicable to Limited Partners)

Additional General Partners are liable for the obligations of the Partnership on a joint and several basis. Section 7.02. This means that they may be liable for the entire amount of the obligations of or claims against the Partnership regardless of whether any of the other Partners have similar obligations. If other Partners do not pay their share of obligations and claims, the Additional General Partners could be liable for the shortfall.

Conversion from an Additional General Partner to a Limited Partner

On January 1 of the year immediately following the calendar year of the Partnership the Additional General Partners ("GP") Units may be converted to Limited Partner("LP") Units, unless the Managing General Partner determines that such conversion at that time would not be in the best interests of the General Partners or the Partnership. Section 7.01.

As discussed in the Tax Opinion, Exhibit D, this conversion of GP Units to LP Units represents a non taxable event. Additionally, upon conversion of the GP Units to LP Units, the character of the LP income and deductions remain active and are not classified as passive income or deductions for future years following the conversion.

As stated in the "Tax Aspects" of this Memorandum, the Managing General Partner recommends that Additional General Partners consult their tax advisers regarding this conversion feature of the Agreement of Limited Partnership.

Allocations and Distributions

General: Profits and Losses are to be allocated and cash is to be distributed in the manner described in the section entitled "<u>Allocations of Profits and Losses</u>." See Article VIII.

Liquidating Distributions: Liquidating distributions (after the payment of all Partnership liabilities) will be made to the Partners in accordance with their respective Capital Accounts. See Article XI.

Books and Records

Partners have the right to review the Partnership's books and records required to be available for review under the TBOC during reasonable business hours at the Partnership's principal office. Section 9.02.

Retirement/Removal of the Managing General Partner

If the Managing General Partner desires to withdraw from the Partnership for whatever reason, it may do so by giving written notice to the Partners. This will terminate the Partnership unless reconstituted by the remaining Partners.

Term and Winding-up

The Partnership will commence winding-up upon the occurrence if:

(a) the Managing General Partner determining the Partnership should be dissolved;

(b) the Partnership becoming insolvent or bankrupt, which insolvency cannot be remedied as determined by the Managing General Partner;

(c) the sale or other disposition of all or substantially all of the Partnership's assets outside of the ordinary course of business; or

(d) The Managing General Partner's resignation, retirement, adjudication of incapacity, withdrawal, removal, dissolution, liquidation, or bankruptcy, unless a successor Managing General Partner is selected by Partners within 90 days after such event to reconstitute the Partnership.

Indemnification

The Managing General Partner will be entitled to reimbursement and indemnification for all expenditures made (including amounts paid in settlement of claims) or losses or judgments suffered by it arising from the Partnership, or its property, business, or affairs to the fullest extent allowed by law, provided that the expenditures were not the result of gross negligence or willful misconduct on the part of the Managing General Partner. Section 5.10.

Reports to Partners

The Managing General Partner will provide an annual U.S. Partnership Return, Form 1065 Schedule K-1 which would report the Partner's pro-rata share of calendar year taxable income, applicable deductions, distributions, and analysis of capital account. The Managing General Partner may also furnish summary reports showing the status of the drilling and completion of the Partnership Wells periodically, until drilling and completion activities are completed.

Power of Attorney

Each Partner will grant to the Managing General Partner a power of attorney to execute certain documents deemed by the Managing General Partner to be necessary or convenient to the Partnership's business or required in connection with the qualification and continuance of the Partnership. Section 12.01.

Side Letters

The Managing General Partner on behalf of the Issuer may enter into other written agreements ("Side Letters") with one or more Investor Partners. These Side Letters may entitle an Investor Partner to make an investment in the Issuer on terms other than those described herein or in the Partnership Agreement. Any such terms may be more favorable than those offered to any other Investor Partners and may affect the other Investor Partners of the Issuer.

Other Provisions

Other provisions of the Partnership Agreement are summarized in this Memorandum under the headings "Terms of the Offering," "Sources and Application of Proceeds," "Management," "Fiduciary Responsibilities and Indemnification of the Managing General Partner," and "Transferability of Units." The attention of prospective investors is directed to these sections.

SUMMARY OF THE MANAGEMENT AND MAINTENANCE AGREEMENT

King and the Partnership have entered into a Management and Maintenance Agreement whereby King will provide several services related to the development of the Partnership's oil and gas leasehold assets. The following is a brief summary of the Management and Maintenance Agreement, a form of which is attached to this Memorandum as Exhibit C. The summary is not a substitute for reviewing and understanding the Management and Maintenance Agreement and in the case of any possible disagreement between this summary and the actual Management and

Maintenance Agreement, the Management and Maintenance Agreement controls. This summary does not modify the Management and Maintenance Agreement in any way.

Under the Management and Maintenance Agreement, King requires prepayment by the Partnership and will provide the Partnership with the following services (the "Management Services"):

- Duties related to and necessary for permitting, drilling, testing, and completing any Wells and performing all duties related to operating and maintaining the Wells;
- Duties related to and necessary for equipping, operating and maintaining the Wells;
- Negotiate the sales of all Hydrocarbons produced from the Wells and distributing the revenue of such Hydrocarbons;
- Prepare joint interest billing statements and delivering such statements for all operations and maintenance of the Wells;
- Calculate and pay any royalties, production payments or other burdens on the mineral and surface interests, Hydrocarbons, equipment appurtenant to the Wells and other assets on behalf of the Partnership;
- Take bids and negotiate contracts with Persons providing services for the operation and maintenance of the Wells;
- Prepare all AFEs required for any operations related to the Wells and leases owned by the Partnership;
- Provide monthly reports to the Partnership detailing expenses incurred in the performance of the Management Services, the Hydrocarbons produced and sold in the preceding month, and such other information as the Partnership may reasonably request;
- Develop drilling and development plans for oil and gas leases held by the Partnership;
- Evaluate potential acquisitions for the Partnership; provided however that King may determine that third party studies need to be undertaken, and King will not be obligated to incur additional costs for engineering and geological assessments outside of its own employees;
- Assist in routine land management tasks, such as filing assignments and preparing or evaluating division orders; provided however that King may determine that third party vendors may be necessary for the timely completion of certain land management tasks, and King will not be obligated to incur additional costs for land management outside of its own employees; and
- All activities related to the solicitation, negotiation, placement, and issuance of debt by the Partnership.

Fees to King

For each Operation (defined as any well optimization, well recompletions, and new Wells that are drilled, side-tracked, deepened, or re-worked, excluding routine well management and maintenance), King will report to the Partnership the cost of acquiring Leasehold Assets (Oil & Gas Mineral Interests) and cost of developing the Partnership's assets by acquiring existing commercial wells or drilling proposed wells and acquisition of Leasehold Assets (oil and gas mineral acreage). King, pursuant to the Management and Maintenance Agreement, shall be entitled to its Contribution Margin based upon the AFE, which is equal to cost plus up to twenty percent (20%). The Contribution Margin allows King to pay operational costs in performing the Management Services, including general and administrative and overhead costs, and may result in Profits to King.

The Partnership and King are contractual parties to the Management and Maintenance Agreement. The Management and Maintenance Agreement provides for the rights and obligations of the Partnership as undivided interest owners of the Partnership Assets as well as King's rights and obligations as operator of the Partnership Assets.

Term

The term of the Management and Maintenance Agreement runs indefinitely from its effective date until terminated by either party upon 90 days written notice.

Indemnification

The Partnership will be obligated to indemnify King, its affiliates, and related persons (as defined in the Management and Maintenance Agreement, "Manager Indemnitees") against claims arising from any Manager Indemnitee's performance of the Management Services; provided, however, that Manager Indemnitees are not entitled to indemnification where claims arise due to the Manager Indemnitees' gross negligence or willful misconduct.

Representations and Warranties

The Management and Maintenance Agreement contains several customary mutual representations and warranties relating to each party's corporate standing and the execution, delivery and enforceability of the Management and Maintenance Agreement. Along with the standard representations and warranties, King also represents that it has, or will have prior to any King related activities, all the permits, consents and approvals that it requires to perform the Management Services as contemplated by the Management and Maintenance Agreement. In addition to the Partnership's standard representations and warranties, the Partnership additionally represents that it is aware of the conflicts of interest which might arise between King (and its Affiliates) and the Partnership given King and its Affiliates' other business activities. See the section of this Memorandum entitled “Certain Relationships and Related Transactions” for more information.

Miscellaneous Provisions

The Management and Maintenance Agreement contains a list of standard but important miscellaneous provisions, including a restriction against assignment without prior consent and a force majeure clause. The Management and Maintenance Agreement also contains an agreement to arbitrate any disputes arising between parties from King’s performance of the Management Services thereunder. The parties are obligated to resolve any dispute by way of binding arbitration to be held in Dallas, Texas, pursuant to the rules of the American Arbitration Association.

TRANSFERABILITY OF UNITS

The transferability of the Units is very limited and no market for the Units will develop. An investment in the Partnership should be considered an illiquid investment. Investors may not be able to sell their Units without the Managing General Partner’s consent and may be required to produce a legal opinion relating to transferability. The Partnership intends that it will not be treated as “publicly traded partnership.” Consequently, the Managing General Partner intends to seek to prevent the Partnership Units from trading on any established securities market.

OTHER MATTERS

This Memorandum does not propose to restate all the relevant provisions of the documents referred to or relevant to the matters discussed herein. All these documents must be read for a thorough understanding of the terms of all matters relevant to the purchase of Units. Each prospective investor is invited to ask questions of, and receive answers from, authorized representatives of the Managing General Partner, and may inspect the books and records of the Partnership at any reasonable time, in order to obtain such information concerning the terms and conditions of the offering, to the extent the Partnership possesses the same or can obtain it without unreasonable effort or expense, as such prospective investor deems necessary to verify the accuracy of the information referred to in this Memorandum. The Managing General Partner will maintain at its office a list of the names and addresses of all Partners.

Attention is directed to the Partnership Agreement and other Exhibits to this Memorandum for a full description of matters which may be described summarily in this Memorandum, or which may not be included in the text of this Memorandum.

FINANCIAL STATUS OF THE PARTNERSHIP

King Operating Partners III, LP is a Texas limited partnership formed under Texas law on October 5, 2022. As of the date of this Memorandum it is not capitalized.

FINANCIAL INFORMATION FOR THE MANAGING GENERAL PARTNER

KOP III GP LLC is a Texas limited liability company formed on October 5, 2022. It will not be making a material capital contribution to the Partnership. King Operating Partners III, LP is the first business venture it has sponsored.

OTHER DOCUMENTS

The Managing General Partner values its relationship with its investing partners. It takes every precaution it can with client information subject, of course, to government regulation. The Partnership's policies forbid any dissemination of client information both inside and outside the Partnership.

PAYMENT

Payment by investor may be made by check, wire transfer, or cashier's check. The Partnership follows various federal regulations and may have to provide information to government agencies where the investment is made by cash, wire transfer or other means outside the normal course of commerce. The Managing General Partner may have to provide information to government agencies where the investment is made by cash or other means outside the normal course of commerce. Partnership has opened depository account ABA 111907490, Account Number 20126262 at Oakwood Bank, now a part of b1 Bank, 17808 Dallas Parkway, Dallas, Texas 75287 for the receipt of Partnership Subscription Funds.

Exhibit A

Certificate of Formation

King Operating Partners III, LP

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Corporations
Section P.O.Box
13697
Austin, Texas 78711-
3697

John B. Scott
Secretary of State

Office of the Secretary of State

CERTIFICATE OF FILING OF

King Operating Partners III, LP
File Number: 804758343

The undersigned, as Secretary of State of Texas, hereby certifies that a Certificate of Formation for the above named Domestic Limited Partnership (LP) has been received in this office and has been found to conform to the applicable provisions of law.

ACCORDINGLY, the undersigned, as Secretary of State, and by virtue of the authority vested in the secretary by law, hereby issues this certificate evidencing filing effective on the date shown below.

The issuance of this certificate does not authorize the use of a name in this state in violation of the rights of another under the federal Trademark Act of 1946, the Texas trademark law, the Assumed Business or Professional Name Act, or the common law.

Dated: I0/05/2022

Effective: I

0/05/2022

John B. Scott
Secretary of
State

Form 207

Secretary of State
P.O. Box 13697
Austin, TX 78711-3697
FAX: 512/463-5709

Filing Fee: $750

Certificate of Formation
Limited Partnership

Filed in the Office of the
Secretary of State of Texas
Filing #: 804758343 10/05/2022
Document#: 1184410340002
Image Generated Electronically
for Web Filing

Article 1 - Entity Name and Type

The filing entity being formed is a limited partnership. The name of the entity is:

King Operating Partners Ill, LP

The name must contain the words "Limited Partnership," or "Limited," or the abbreviation "L.P.," "LP," or "Ltd." The name must not be the same as, deceptively similar to or similar to that of an existing corporate, limited liability company, or limited partnership name on file with the secretary of state. A preliminary check for "name availability" is recommended.

Article 2 - Principal Office

The address of the principal office in the United States where records of the partnership are to be kept or made available is set forth below:

6142 Campbell Road Suite 200, Dallas, TX, USA 75248

Article 3 - Registered Agent and Registered Office

P' A. The initial registered agent is an organization (cannot be limited partnership named above) by the name of:

KOP Ill GP LLC

OR

rs. The initial registered agent is an individual resident of the state whose name is set forth below:

C. The business address of the registered agent and the registered office address is:

Street Address:
6142 Campbell Road Suite 200 Dallas TX 75248

Consent of Registered Agent

r A. A copy of the consent of registered agent is attached.

OR

P'B. The consent of the registered agent is maintained by the entity.

Article 4 - General Partner Information

The name and address of each general partner are as follows:

General Partner 1: (Business Name) KOP Ill GP LLC

Address: 6142 Campbell Road Suite 200 Dallas TX, USA 75248

Supplemental Provisions/ Information

[The attached addendum, if any, is incorporated herein by reference.]

Effectiveness of Filing

P'A. This document becomes effective when the document is filed by the secretary of state.

rs. This document becomes effective at a later date, which is not more than ninety (90) days from the date of its signing. The delayed effective date is:

Initial Mailing Address

Address to be used by the Comptroller of Public Accounts for purposes of sending tax information.

The initial mailing address of the filing entity is:

6142 Campbell Road Suite 200
Dallas, TX 75248
USA

Execution

The undersigned affirms that the person designated as registered agent has consented to the appointment. The undersigned signs this document subject to the penalties imposed by law for the submission of a materially false or fraudulent instrument and certifies under penalty of perjury that the undersigned is authorized under the provisions of law governing the entity to execute the filing instrument.

Signature of General Partner 1: James R Young, Managing Member, KOP lll GP LLC

FILING OFFICE COPY

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Exhibit B

Partnership Agreement

King Operating Partners III, LP

Continue to Next Page

KING OPERATING PARTNERS III, LP

AGREEMENT OF

LIMITED PARTNERSHIP

OCTOBER 29, 2024

THE ADDITIONAL GENERAL PARTNER AND LIMITED PARTNER CLASS A UNITS IN THIS PARTNERSHIP HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, ANY STATE SECURITIES LAWS, OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION, IN RELIANCE UPON EXEMPTIONS FROM REGISTRATION AS PROVIDED IN THOSE LAWS AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER. THE SALE OR OTHER DISPOSITION OF SUCH INTERESTS IS RESTRICTED, AS SET FORTH IN THIS AGREEMENT OF LIMITED PARTNERSHIP, AND THE EFFECTIVENESS OF ANY SUCH SALE OR OTHER DISPOSITION MAY, IN THE PARTNERSHIP'S SOLE DISCRETION, BE CONDITIONED UPON RECEIPT BY THE PARTNERSHIP OF A WRITTEN OPINION OF COUNSEL SATISFACTORY TO THE PARTNERSHIP AND ITS COUNSEL THAT SUCH SALE OR OTHER DISPOSITION CAN BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ANY APPLICABLE LAWS OF ANY STATE OR OTHER JURISDICTION.

PURSUANT TO THE TEXAS SECURITIES ACT, THE LIABILITY OF A LAWYER, ACCOUNTANT, CONSULTANT OR THE FIRM OF ANY OF THE FOREGOING, AND ANY OTHER PERSON ENGAGED TO PROVIDED SERVICES RELATED TO AN OFFERING OF SECURITIES OF THE PARTNERSHIP ("SERVICE PROVIDERS") IS LIMITED TO A MAXIMUM OF THREE TIMES THE FEE PAID BY THE PARTNERSHIP OR SELLER OF THE PARTNERSHIP'S SECURITIES, UNLESS THE TRIER OF FACT FINDS THAT SUCH SERVICE PROVIDER ENGAGED IN INTENTIONAL WRONGDOING IN PROVIDING THE SERVICES.

AGREEMENT OF LIMITED PARTNERSHIP

OF

KING OPERATING PARTNERS III,
LP A TEXAS LIMITED
PARTNERSHIP

This Agreement of Limited Partnership (this or the "Agreement") is made and entered into by and among KOP III GP LLC, a Texas limited liability company (when acting in its capacity as the managing general partner of the Partnership, the "Managing General Partner"), and those Persons who execute or adopt this Agreement or counterparts as Class A Partners, Class B Partners or Partners holding other classes of Units. The Managing General Partner and Partners holding any class of Units are referred to individually as a "Partner" and collectively as the "Partners."

RECITALS

WHEREAS, King Operating Partners III, LP, a Texas limited partnership (the "Partnership"), was formed on October 5, 2022, by the Managing General Partner and King KOP III B LLC, and is governed by this Agreement;

NOW THEREFORE, for and in consideration of the mutual covenants and agreements herein set forth (the receipt and sufficiency of which are hereby acknowledged) and intending to be legally bound, the parties hereto enter into this Agreement pursuant to the provisions and upon the terms and conditions herein contained and hereby agree as follows:

ARTICLE I
COMPANY

1.01 FORMATION AND CONTINUATION. The parties formed the Partnership under and pursuant to the provisions of the TBOC and the Partnership shall continue as a limited partnership in accordance with the terms hereof and pursuant to the TBOC, and each Partner, by its execution and delivery of this Agreement, agrees to be bound by the terms and conditions of this Agreement.

1.02 NAME. The name of the Partnership shall be King Operating Partners III, LP. The Managing General Partner may adopt such trade or fictitious names as it may deem appropriate.

1.03 PRINCIPAL PLACE OF BUSINESS. The principal place of business of the Partnership shall be at 15301 Dallas Parkway, Suite 900, Addison, Texas 75001, or at such other location as the Managing General Partner, in its sole discretion, may determine. The Managing General Partner shall notify the Unit Holders within 30 days in writing of any change in location.

1.04 REGISTERED OFFICE AND REGISTERED AGENT. The Partnership's registered office shall be 15301 Dallas Parkway, Suite 900, Addison, Texas 75001. The registered agent is KOP III GP LLC. The registered office and registered agent may be changed from time to time pursuant to the TBOC and the applicable rules promulgated thereunder, as approved by the Managing General Partner.

1.05 TERM. The term of the Partnership commenced on the date the Certificate of Formation was filed with the Secretary of State of Texas, is being continued under this Agreement and shall continue until the Partnership is dissolved and its affairs wound up in accordance with the provisions of this Agreement or the TBOC.

1.06 BUSINESS OF PARTNERSHIP. The Partnership shall have the authority to engage in any and all activities permitted generally to limited partnerships under the TBOC. The business of the Partnership shall be to engage in the oil and gas industry and all necessary, related, or incidental activities. The Partnership intends to acquire and develop oil and gas properties located in in the continental United States as determined by the Managing General Partner. The Partnership may, without limitation, (a) invest in drilling projects sponsored by affiliates or non-affiliated parties; (b) acquire leasehold acreage from affiliates or others as sole owner or in participation with affiliates or non- affiliated parties; (c) develop leasehold acreage alone or in participation with affiliates or non- affiliated parties; (d) enter into participation or farmout agreements with affiliates or non-affiliated parties; (e) acquire producing mineral interests; and (f) engage in the pipeline business, as a common carrier or otherwise, for the purpose of transporting oil, oil products, gas, carbon dioxide, water (for disposal or otherwise), soft brine, fuller's earth, sand, clay, liquefied minerals or other mineral solutions.

ARTICLE II
DEFINITIONS; GLOSSARY

2.01 DEFINITIONS. For the purposes of this Agreement, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

Adjusted Capital Account Deficit. With respect to any Unit Holder, the deficit balance, if any, in such Unit Holder's Capital Account as of the end of the relevant tax year, after giving effect to the adjustments required by this Agreement or the Code or Regulations as determined by the Managing General Partner.

Affiliate (whether or not capitalized). Any Person controlling, controlled by, or under common control with another Person.

Agreement shall mean this Agreement of Limited Partnership including all amendments adopted in accordance with this Agreement and the TBOC.

Book Depreciation. For any asset for any fiscal period, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable for federal income tax purposes with respect to an asset for which the Gross Asset Value equals its adjusted tax basis. If the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such fiscal period, Book Depreciation shall be an amount that bears the same ratio to the Gross Asset Value of that asset at the beginning of such fiscal period as the federal income tax depreciation, amortization or other cost recovery deduction allowable for that asset for such period bears to the adjusted tax basis of that asset at the beginning of such period. If the federal income tax depreciation, amortization, Simulated Depletion (with respect to oil and gas properties), or other cost recovery deduction allowable for any asset for such period is zero, then Book Depreciation for that asset shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Managing General Partner.

Capital Account. The account maintained for a Partner or Unit Holder as provided in Article IV.

Capital Call. As provided in Sections 4.02(b) through 4.02(d).

Capital Contribution. The total amount of cash plus the fair market value of property contributed to the capital of the Partnership by any Unit Holder (or the predecessor holders of the interests of such Unit Holder.

Capital Transaction. The divestiture, sale, conveyance, assignment, or abandonment of a Partnership Property.

Class A Unit. A Unit of Partnership Interest designated as Class A.

Class B Unit. A Unit of Partnership Interest designated as Class B.

Class A Unit Holder. A Person holding Class A Units.

Class B Unit Holder. A Person holding Class B Units.

Class Sharing Ratio. The quotient resulting from dividing the Units of a specific class held by a Unit Holder by all outstanding Units of that class. For example, if 100 Class A Units are issued, a Class A Unit Holder holding one Class A Unit would have a Class Sharing Ratio of 1 divided by 100 Units, or 0.01. Notwithstanding the foregoing, a newly admitted Partner shall participate in distributions to the class of Units held as of the first day of the production month, as to which the distribution relates, following the month in which the Partner was admitted and such newly admitted Partner's Units shall not be considered in the determination of Class Sharing Ratios with respect to any distribution which such newly admitted Partner is not entitled to participate. For example, if a Partner invests in month 6, that Partner will participate in distributions relating to production month 7 and thereafter but will not participate in distributions made in month 7 and thereafter which relate to production months 1 through 6 as determined by the Managing General Partner.

Code. The Internal Revenue Code of 1986, as amended from time to time.

Contribution Margin. Means a fee of up to (i) twenty percent (20%) of the total costs of all drilling, testing, completion, stimulation, equipping, and infrastructure costs of oil and gas wells ("CAPEX") and (ii) twenty percent (20%) of the total cost of acquisition of the Partnership Properties, which shall be prepaid in accordance to the provisions of the Management and Maintenance Agreement or closing (including partial closing of agreed upon blocks or undivided interests in the same package) of the applicable Partnership Asset. The Contribution Margin allows for the payment of operational costs in performing certain services, including general and administrative and overhead costs, and may result in profits. The Contribution Margin will not be applied to lease operating expenses (LOEs).

CTA. The Corporate Transparency Act (31 U.S.C. § 5336).

CTA Compliance Person. The Managing General Partner, or such other Person designated by the Managing Members as having responsibility for the Company's compliance with the Corporate Transparency Act.

CTA Information. With respect to a natural person: (a) the full legal name of such Person, including any suffix; (b) their date of birth; (c) their complete current residential street address, including any apartment or suite number; (d) a unique identifying number; and (e) an image of such Acceptable Identification Document of sufficient quality.

Entity Partner. The meaning specified in Section 24.2.

Event of Withdrawal. As to all Partners, an Event of Withdrawal occurs when a Partner: provides written notice to the Partnership of the Partner's express will to withdraw as a partner; makes an assignment for the benefit of creditors; files a voluntary petition in bankruptcy; is adjudged a bankrupt or insolvent or has entered against such Partner an order for relief in any bankruptcy or insolvency proceeding which order is not dissolved within 60 days; files a petition or answer or certificate seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief; files an answer or other pleading failing to contest the material allegations in any bankruptcy or insolvency proceeding; becomes subject to the appointment of a receiver or trustee or liquidator of all or any part of the Partner's property which includes their Partnership Interest; fails to have vacated or stayed the appointment of a trustee, receiver or liquidator of the

Partner or of all or any part of the Partner's property which includes their Partnership Interest within 60 days of the appointment; has been expelled from the Partnership by a final judicial decree; is subject to any order or judgment not stayed within 30 days of issuance attaching or foreclosing upon any part of its Partnership Interest; (or a controlling person of such Partner) is on the list of Specially Designated Nationals and Blocked Persons maintained by the Office of Foreign Assets Control or any similar list or is otherwise a Person the Partnership is prohibited from doing business with; commences any proceeding adverse to the Partnership; or transfers any Partnership Interest, as to the interest transferred. As to a Partner who is a natural Person, an Event of Withdrawal also occurs upon the Partner's death, the appointment of a guardian or general conservator for the Partner or an adjudication of incompetency of the Partner. As to a Partner who is an entity, an Event of Withdrawal also occurs upon the termination, dissolution, or cessation of business of the Partner.

Executive Rights. Executive Rights include, without limitation, the right to collect any and all bonuses, delay rentals, shut in rental and royalty payments and all other payments made under any of the Partnership Properties, the right to grant, amend, ratify, correct or otherwise modify any oil, gas or mineral lease or real property conveyance involving any of the Partnership Properties, the right to negotiate and execute farmin/ farmout, drill to earn, participation, and other agreements; the right to agree to and to execute pooling agreements or unitization agreements or modifications or ratifications thereof, the right to agree to and to execute division orders or amended or corrected division orders, the right to agree to, execute and deliver or record corrective deeds, the right to execute transfer orders or stipulations of interest covering any of the Partnership Properties, the right to agree to and to execute any and all documents or instruments necessary or appropriate to cure existing or after-discovered title defects affecting the Partnership Properties and any other similar Executive Rights provided or defined under the laws of any state or other jurisdiction.

FinCEN. The U.S. Department of the Treasury's Financial Crimes Enforcement Network.

First Purchaser. The first Person or company that purchases oil or gas from an interest owner.

Fiscal Year. The Partnership's fiscal year shall be the calendar year ending December 31.

General and Administrative Expenses. All customary and routine legal, accounting, geological, engineering, consulting, travel, office rent, telephone, compensation to officers and employees, investor communications, reporting, issuance of revenue cycle distributions, third party costs and fees incurred for the preparation and dissemination of annual partnership tax information such as IRS Form 1065 Schedule K-1s, and other similar incidental expenses incurred by the Partnership or by the Managing General Partner on behalf of the Partnership, which the Managing General Partner, in its sole discretion, deems necessary to the conduct of Partnership's operations, excluding Offering and Marketing Expenses.

General Partner. A Person admitted to the Partnership as a General Partner by the Managing General Partner, any Limited Partner who is converted to a Limited Partner and any Person who becomes a General Partner in accordance with the terms hereof. General Partners may hold Units of any class.

Gross Asset Value. For any asset, the asset's adjusted basis for federal income tax purposes, except as set forth below:

(a) The initial Gross Asset Value of any asset contributed by a Unit Holder to the Partnership shall be the gross fair market value of the asset on the date of determination, as determined by the contributing Unit Holder and the Managing General Partner.

(b) The Gross Asset Values of all Partnership assets shall be adjusted to equal their gross fair market values, as determined by the Managing General Partner, as of the following times: (1) the contribution of more than a de minimis amount of money or other property to the Partnership as a Capital Contribution by a new or existing Unit Holder, the acquisition of an interest in the Partnership (other than a de minimis interest) as consideration for the provision of services to or for the benefit of the Partnership, or the distribution by the Partnership to a retiring or continuing Unit Holder of more than a de minimis amount of property as consideration for an interest in the Partnership, if the Managing General Partner reasonably determines that such adjustment is necessary or appropriate to reflect the relative economic interests of the Unit Holders in the Partnership; (2) the liquidation of the Partnership within the meaning of the Regulations, or (3) upon any other event to the extent determined by the Managing General Partner to be necessary to properly reflect the Gross Asset Values in accordance with the standards set forth in Regulations.

(c) The Gross Asset Values of Partnership assets shall be increased (or decreased) to reflect any adjustment to the adjusted basis of such assets pursuant to the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to the Regulations; provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (c) to the extent that an adjustment pursuant to subparagraph (b) above is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (c).

(d) The Gross Asset Value of a depletable property shall be reduced by the amount of Simulated Depletion in respect of such property in lieu of depletion;

(e) If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (a), (b) or (c), above, such Gross Asset Value shall thereafter be adjusted by the Book Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

(f) The Gross Asset Value of any Partnership asset distributed to any Unit Holder shall be the gross fair market value of such asset on the date of distribution.

(g) Gain or loss resulting from any disposition of property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of the property differs from the Gross Asset Value of the property.

Guaranteed Payment. Any payments made by the Partnership to a Unit Holder other than in their capacity as a Unit Holder, as further defined in Code Section 707(c). Guaranteed Payments shall be included in the calculation of Partnership profit and loss and shall not be considered a distribution to such Unit Holder.

Held By Production. A provision in an oil or natural gas property lease that allows the lessee, generally the working interest owners, to continue receiving the proceeds from the commercial sale of hydrocarbons produced from said lease. The said lease must be economically producing a minimum amount of oil or gas. Lessee also retains the right to continue drilling activities on the said lease.

Intangible Drilling Costs. Those expenditures associated with property acquisition and the drilling and completion of oil and 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 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 the drilling of the well and the preparation of the well for the production of oil or gas, that are currently deductible pursuant to the Code and Regulations, which are generally termed "intangible drilling and development costs," including the expense of plugging and abandoning any well before a completion attempt. Intangible Drilling Costs shall also include, for all purposes under this Agreement, any and all Intangible Drilling Costs which are attributable to mineral interests owned by third parties in any wells, but are charged to, and paid by, the Partnership under participation agreements, farmout agreements, operating agreements, fixed cost drilling contracts and any other agreements or any other interest in favor of third parties which burdens any well or to which the Partnership is subject, even though payment by the Partnership of those Intangible Drilling Costs which are in excess of the Partnership's permanent share of the Working Interest in the wells may be treated under the Code as payment of depletable Lease Acquisition Costs for tax purposes and therefore not currently deductible as Intangible Drilling Costs.

Investor Partner. Any General or Limited Partner of the Partnership other than the Class B Partners and the Managing General Partner but shall not include any Person who becomes a General or Limited Partner after the date of the this Agreement and is designated as something other than an Investor Partner by the Managing General Partner.

Lease. Full or partial interests in oil and gas leases, oil and gas mineral rights, fee rights, licenses, concessions, or other rights under which the holder or a Person participating with the holder is entitled to explore, drill for and produce oil and/ or gas, or to enter upon such land for the purpose of exploring or drilling for or producing oil and gas and further includes any contractual rights to acquire any such interest and any contractual rights incident to such interest. As used in this Agreement, Leases include those leases owned or to be acquired by the Partnership and any leases acquired hereafter.

Lease Acquisition Costs. Those payments and expenses incurred in connection with the acquisition of a Lease or an interest in a Lease, including, but not limited to, lease bonuses, brokers' fees and commissions, abstracting costs, title examination and filing fees, costs incurred in curing or defending title, capitalized screening, seismic, geological, and geophysical expenses incident to either the evaluation or the acquisition of a Lease or an interest in a Lease, and delay rentals. Lease Acquisition Costs may include costs incurred to evaluate a property which is not acquired. Any Intangible Drilling Costs which are treated under the Code as lease acquisition costs for tax purposes because they are attributable to carried working interests of other co- owners of any Lease shall be treated as Intangible Drilling Costs for all purposes under this Agreement, other than tax reporting purposes.

Lease Operating Costs. All expenditures made and costs incurred in connection with (i) the operation of a well and the production and marketing of oil and gas from completed wells, including labor, fuel, repairs, hauling, materials, supplies, utility charges, and other costs incident to or therefrom, (ii) ad valorem, severance, and other applicable taxes, (iii) insurance and casualty loss expense, (iv) compensation to affiliates of the Managing General Partner or others for services rendered in conducting such operations (which compensation includes monthly operating fees and reimbursement of direct costs), (v) acquiring and installing a compressor and a gas pipeline to deliver and transport any natural gas production, (vi) any salt water disposal system, (vii) completing additional zones, (viii) Special Project Costs and (ix) lease bonus, extension and renewal payments.

Limited Partner. A Person admitted to the Partnership as a Limited Partner by the Managing General Partner, any Additional General Partner who is converted to a Limited Partner and any Person who becomes a Limited Partner in accordance with the terms hereof. Limited Partners may hold Units of any class.

Managing General Partner. A Person admitted to the Partnership as a Managing General Partner and any Person who becomes a Managing General Partner in accordance with the terms hereof. Managing General Partners may hold Units of any class or hold no Units. The initial Managing General Partner shall be KOP III GP LLC, a Texas limited liability company.

Net Operating Cash Flow. Net Operating Cash Flow for Partnership distribution purposes is at the sole discretion of the Managing General Partner. However, in general terms, Net Operating Cash Flow for a specific production month equals gross production revenue received from the First Purchaser, reduced by the following items: royalty and net profits burdens, First Purchaser revenue deductions, production, severance, and/ or ad valorem taxes, lease operating expenses (LOEs), interest expense applicable to any loans, and possible contingency expense reserves as determined by the Managing General Partner.

Offering and Marketing Expenses. A reimbursement to be paid by the Partnership to the Managing General Partner or Manager from the Capital Contributions to the Partnership, in payment of costs and expenses paid or incurred by the Managing General Partner in connection with the organization of the Partnership and offer of Units in the Partnership, including, without limitation, legal, printing, accounting, rent, personnel costs, travel costs and all other such general and administrative expenses of the Managing General Partner or Manager.

Operating Costs. The expenditures made and costs incurred in producing and marketing oil or gas from completed wells, including, in addition to labor, fuel, repairs, hauling, materials, supplies, utility charges and other costs incident to or therefrom, ad valorem and severance taxes, insurance and casualty loss expense, and compensation to Operators or others for services rendered in conducting such operations.

Operator. An Operator engaged by the Partnership to operate oil and gas properties.

Partnership Properties. All the Partnership’s interest of whatever nature, including but not limited to all royalties, overriding royalties, mineral interests, working interests, net profits interests, production payments, and other interests, whether now owned or acquired hereafter, in (i) the Leases; (ii) Wells; (iii) any additional leases or mineral interests acquired by the Partnership; (iv) any properties now or hereafter pooled or unitized with the Leases or Wells; (v) all presently existing or future unitization agreements, communitization agreements, pooling agreements, and declarations of pooled units and the units created thereby, affecting all or any portion of the Leases or Wells; (vi) all operating agreements, contracts, subleases, farmins, farmouts, production sale, hedging, and other agreements which relate to any of the Leases or Wells or which relate to the production, sale, purchase, exchange, or processing of oil or gas from or attributable to the Leases or Wells; (vii) all easements, rights-of-way, leases, surface use agreements, road use agreements, and other agreements relating to the Leases or Wells; (viii) all geological, geophysical, engineering, accounting, title, legal and other technical or business data concerning the Leases and Wells; (ix) all rents, proceeds, products, revenues, depletion deductions and other income or deduction from or attributable to the Leases and the Wells; (x) all unsevered and unextracted oil, gas or other minerals; and (xi) all Executive Rights relating to any of the foregoing.

Partner. A Person admitted as a Partner in the Partnership.

Partnership. King Operating Partners III, LP, a limited partnership formed under the laws of the State of Texas, and any successor Person.

Partnership Interest. An equity owner's (a) share of the Partnership's assets, profits, losses, and distributions pursuant to this Agreement and the TBOC; (b) share in allocations of income, gain, loss, deduction, credit, or similar items; (c) Capital Account; and (d) in the case of Partnership Interests owned by Partners, the right to participate in the management or affairs of the Partnership as provided in this Agreement. A Partnership Interest is expressed in Units.

Partnership Representative. The Managing General Partner shall serve as the Partnership Representative required to be designated by Code Section 6223, as amended, as provided by Section 9.06 hereof.

Person (whether or not capitalized). An individual, trust, estate, or any incorporated or unincorporated entity, including any general or limited partnership, limited liability company, corporation, joint venture, association, cooperative, government or governmental subdivision or agency and any other legally cognizable entity, and all heirs, executors, administrators, legal representatives, successors and assigns of such person where permitted or required by the context.

Preformation Expenses. Preformation expenses are expenses incurred prior to issuance of the confidential private placement offering which were ordinary and necessary for the formation of the Partnership and or required for securing possible ownership of selected Leasehold Assets to become assets of the Partnership.

Proceeding. Any administrative, judicial, or other Proceeding, including, without limitation, litigation, arbitration, administrative adjudication, mediation, any investigation that could lead to a Proceeding, and appeal or review of any of the foregoing. A Proceeding shall also include any governmental or quasi-governmental process by which rights are granted, established, or terminated.

Profits and Losses. For each fiscal year or other period, an amount equal to the Partnership's taxable income or loss for such year or period, determined in accordance with IRC Section 703(a) and Regulations under the IRC.

Prospect. A contiguous oil and gas interest, upon which drilling, or recompletion operations may be conducted. In general, a Prospect is an area in which the Partnership owns or intends to own one or more oil and gas properties which is geographically defined by the Managing General Partner on the basis of geological data by and which is anticipated by the Managing General Partner to contain at least one reservoir and, an area covering lands which are believed by the Managing General Partner to contain subsurface structural or stratigraphic conditions making it susceptible to the accumulations of hydrocarbons in commercially productive quantities at one or more horizons. A Prospect with respect to a particular horizon may be limited to the minimum area permitted by state law or local practice, whichever is applicable, to protect against drainage from adjacent wells if the well to be drilled by the Partnership is to a horizon containing proved reserves.

Regulations. The permanent, temporary, or proposed and temporary regulations of Department of the Treasury under the Code as such regulations may be lawfully changed from time to time.

Return of Subscribed Capital. With respect to a Class A Unit Holder, that point in time in which such Class A Unit Holder has received aggregate distributions equal to the sum of 100% of such Class A Unit Holder's Capital Contributions. The calculation of Return of Subscribed Capital shall begin from the date such Class A Unit Holder's initial Capital Contribution funds are deposited in the Partnership's bank account.

Simulated Adjusted Tax Basis. The Capital Account's tax basis reduced by the amount of the Simulated Depletion allowances allocated to the Partner for each of the Partnership's Oil and Gas Properties.

Simulated Depletion. A Partner's allocable share of the Simulated Depletion allowance with respect to a particular Oil and Gas Property

Simulated Gain. The gain resulting from a simulated adjustment to the depletion allowance.

Simulated Loss. The loss resulting from a simulated adjustment to the depletion allowance.

Special Project. An activity of the Partnership other than normal and customary drilling and producing operations and Subsequent Operations, including, without limitation, remedial cementing, and acquiring and installing a compressor, pumping equipment or other gas processing equipment, pipelines (other than ordinary flowlines), and other transmission or major storage facilities. All costs of the Partnership related to a Special Project, including, without limitation, the costs of installation, acquisition, or charges for the use of and operation and maintenance of Special Project facilities, shall be classified as Lease Operating Costs.

Subsequent Operations. All operations, including, but not limited to, the drilling of an additional well, the reworking or recompletion of a well, the completion of a well in a different or additional zone, activities designed to increase production in a well, and activities designed to bring production to market, other than Special Projects. Subsequent Operations include the following activities and costs to the extent such are necessary for the specific Subsequent Operation: building pits and tank locations; location damages; rig costs, including day work costs and workover unit; mud, chemicals, and water; evaluation services such as case hole logging and perforating; well stimulation costs, including acidizing and fracturing; transportation; welding, labor, and miscellaneous services; engineering, geological services, overhead, and accounting associated with Subsequent Operations; well tubing, tubing anchor, wellhead equipment, packer and downhole flow controls, surface equipment, christmas tree, high low shutoff, storage tanks, tractor, cattle guard or gate, thread protectors, packer, separator, dehydrator, water tanks, and installation costs and other miscellaneous tangible or intangible costs associated with such activities.

Tangible Costs. Those costs associated with property acquisition and the drilling and completion of oil and gas wells which are generally accepted as capital expenditures pursuant to 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 and gas production to purchasers to the extent installed downstream from the wellhead of any well and which are required to be capitalized pursuant to applicable provisions of the Code and Regulations. Tangible Costs also includes, for all purposes under this Agreement, any and all Tangible Costs which are attributable to mineral interests owned by third parties in any wells, but which costs are charged to the Partnership under participation agreements, farmout agreements, operating agreements, drilling contracts and any other agreements, or any other interests in favor of third parties which burden any well or to which the Partnership is subject, even though payment by the Partnership of Tangible Costs in excess of the Partnership's permanent share of the Working Interest in the well may be treated under the Code as payment of depletable Lease Acquisition Costs for tax purposes and therefore not depreciable as Tangible Costs.

TBOC. The Texas Business Organizations Code and all amendments to such code or successor statutes or codes.

Transfer. A transfer includes any sale, assignment, pledge, hypothecation, exchange, or other transaction in which any record or beneficial interest in a Partnership Interest is transferred to another Person and includes any transfer by operation of law in connection with a probate, bankruptcy, receivership, divorce, guardianship, or similar Proceeding.

Unit. A unit of Partnership Interest in a class designated by the Partnership. Units are not required to be proportionate to Capital Contributions. Units are designated as Class A and Class B at inception of the Partnership, and additional classes of Units may be designated as provided in this Agreement.

Unit Holder. A Person holding a Unit of Partnership Interest. Unit Holders include Partners and Persons not admitted as a Partner holding a Unit of Partnership Interest.

Wellbore Assignment. “Wellbore Assignment" means transfer of ownership or operatorship rights of a wellbore from one party to another. The assignment may be limited to the wellbore of a well, meaning that the assignor is assigning only those rights to production from the wellbore of a certain well, arguably at the total depth it existed at the time of the assignment.

Wells. Those wells acquired, in part or in whole, by the Partnership.

Working Interest. An ownership interest under a lease, or otherwise, covering a specific tract or tracts of land, the owner of which interest has the right to explore for oil, gas, and other minerals on or under such land and has the obligation to pay the cost of exploration, drilling, and operating the property or a part thereof. A Working Interest created by the execution of an oil and gas lease must bear all costs of operations and development of that lease, unlike a Person who owns a royalty interest or an overriding royalty Interest. The Partnership will acquire and own Working Interest.

OIL AND GAS TERMS. Certain additional terms used in the oil and gas industry are described here. A zone is a geological formation having indications, based on but not limited to an analysis of electrical logs, mud logs, samples, and drill stem tests, which can be identified as distinct and separate from other such formations within a well bore. A mineral interest is the ownership of any rights to gas and/ or oil or other minerals as they naturally occur in place near or below the surface of a tract of land. A mineral fee interest or fee simple interest is sometimes used to refer to the outright ownership of the oil and gas in and under a tract of land, or of an undivided fractional interest therein, or any option or right to acquire such ownership. A royalty interest is an interest in oil and gas produced from an oil and gas lease, or the proceeds from the sale of such production, to be received free of substantially all of the costs of development, operation, and maintenance. An Overriding Royalty Interest is a non-operating interest in an oil and gas lease which, like a royalty interest owned by the lessor of a lease, entitles the holder to receive a share of the proceeds of the production from the lease without being obligated to pay any development costs or to pay any of the operating or production costs other than ad valorem taxes, unless otherwise provided in the grant of the overriding royalty interest. It is a non-possessory interest and terminates when the lease that created it terminates. A carried working interest is a working interest that does not pay for its proportionate part of the drilling, testing, completing, and equipping costs of the lease or well to which it relates. Such an interest normally pays its proportionate part of the lease Operating Costs, completing a well in an additional zone and equipment maintenance.

Completion activities generally include those activities normally associated with, and incurred by the Person or entity responsible for, the completion of an oil or gas well, including those activities associated with the following items to the extent not associated with the drilling or operating of such well: surveying; building roads, pits, and tank locations; location damages; cementing of production casing, including stage collar and liner; rig costs, including day work costs and completion unit; mud, chemicals, and water; evaluation services such as case hole logging and perforating; well stimulation costs, including acidizing and fracturing; transportation; welding, labor, and miscellaneous services; engineering, geological services, overhead, and accounting associated with completion activities; production casing; well tubing; tubing anchor; wellhead equipment; packer and downhole flow controls; surface equipment; christmas tree; high low shut off; storage tanks; tractor; gas meter; cattle guard or gate; thread protectors; packer; separator; water tanks; and installation costs and other miscellaneous tangible and intangible costs associated with the completion phase of a well. A well may be completed in one or more separate producing formations at different depths.

A farmout agreement is an agreement whereby the owner of a leasehold interest agrees to assign its interest in such property to another party while retaining some part of its original interest (such as an overriding royalty interest, oil or gas payment, back-in working interest, offset acreage, or other type of interest), subject to the drilling of one or more specified wells (normally on a specified schedule) or other performance by the Prospective assignee as a condition of the assignment. An operating agreement is an agreement between the owners of the working interests in a well and/ or Prospect area and the Person who will operate the well.

ARTICLE III
ISSUANCE OF UNITS AND ADMISSION OF PARTNERS

3.01 INITIAL PARTNERS. The initial Partners shall be the Managing General Partner, as a general partner, and King KOP III B, LLC, each of which is admitted as a Partner in the Partnership. The Managing General Partner shall not be required to make a Capital Contribution to the Partnership or own any Units but shall grant the Partnership access to all maps, drilling logs and other geological and geophysical information it owns or acquires with respect to the Partnership Properties, and a perpetual, non-exclusive, royalty-free license to use such intellectual property solely in the development of the Partnership Properties. King KOP III B, LLC (or its affiliates) may contribute the Partnership Properties and other assets or monies to the Partnership prior to or during the initial offering of Units. Except as expressly set forth herein, the Managing General Partner shall determine the Gross Asset Value of contributed assets using any valuation method it deems appropriate, in its sole discretion. King Operating Corporation and/ or its Affiliates may incur preformation expenses prior to the formation of the Partnership and, as such, shall be entitled to reimbursement of said expenses.

3.02 ISSUANCE OF UNITS; ADMISSION OF PARTNERS.

(a) Class B Units. The Managing General Partner may issue Class B Units or partial Class B Units, to Persons, and admit such Persons as Class B Partners and as Limited Partners or General Partners on such terms and for such consideration as the Managing General partner may determine in its sole discretion. As set forth on Exhibit B, attached hereto, the Class B Units are initially issued by the Partnership to King KOP III B LLC, effective as of October 5, 2022.

(b) Class A Units. The Managing General Partner may issue Class A Units or partial Class A Units, to Persons, and admit such Persons as Class A Partners and as Limited Partners or Additional General Partners or allow one or more existing Partners to increase its Capital Contribution, at any time and from time to time, on such terms and for such consideration, as the Managing General Partner may determine in its sole discretion.

(c) Other Units/ Classes. The Managing General Partner may designate additional classes or series of Units or other Partnership Interests and determine their respective rights, powers and duties, and the Managing General Partner may issue such Units (or partial Units), to Persons, and admit such Persons as Partners of such class or series and as Limited Partners or Additional General Partners, at any time and from time to time, on such terms and for such consideration, as the Managing General Partner may determine in its sole discretion.

(d) No Pre-emptive Rights. The Managing General Partner shall have no obligation to offer Units or other securities or derivatives thereof to current Unit Holders or Partners before offering such securities or derivatives to Persons who are not Unit Holders or

(e) Issued Units. Units or partial Units shall be deemed issued only upon payment of the Capital Contribution, if any, for such Unit or partial Unit. Exhibit A attached hereto contains the name of each Unit Holder holding Units and the class and number of Units held by each Unit Holder. Exhibit A shall be amended from time to time by the Managing General Partner to reflect changes in the Unit Holders or the ownership of Units, and any such amendment shall not be deemed an amendment of this Agreement requiring the vote or consent of the Partners. Notwithstanding anything to the contrary herein, the Managing General Partner may keep confidential from any Partner the identity, Capital Contribution and all other information set forth on Exhibit A of any other Partner. No Unit Holder shall have any preferential or preemptive rights to acquire Units or other debt or equity securities issued by the Partnership. Unit Holders not admitted as a Partner shall be entitled to allocations and distributions in respect to their Partnership Interest but shall not have any rights reserved to Partners under this Agreement, including without limitation any voting rights. A Person may be admitted as a General Partner by the Managing General Partner without acquiring any Units.

(f) Units Uncertificated. Units and other Partnership Interests issued by the Partnership shall not be represented by certificates. The books and records of the Partnership shall be prima facie evidence of the identity of Partners or Unit Holders and the Units or Partnership Interests held by each. The Partnership shall not be required to recognize the claim of any other Person to any Capital Account or Unit. The Units are securities and are governed by Chapter 8 of the Uniform Commercial Code, as currently in effect and as amended in the future in the State of Texas.

3.03 PROFITS INTERESTS. The Partnership may issue Profits Interests. Profits Interest holders shall be those Persons receiving awards of Profits Interests, which shall be designated as such on the book and records of the Partnership. It is intended that the Class B Units issued hereunder constitute Profits Interests. The Partnership and each Unit Holder agrees to treat each Profits Interest Unit as a separate "Profits Interest" within the meaning of Rev. Proc. 93-27, 1993-2 C.B. 343 and Rev. Proc. 2001-43, 2001-34 I.R.B. 191, and it is the intention of the Partnership and the Unit Holders that distributions to each Profits Interest holder pursuant to Sections 8.01 and 11.03(c) be limited to the extent necessary so that such Profits Interest holder qualifies as a Profits Interest under Rev. Proc. 93-27 and Rev. Proc. 2001-43, and this Agreement shall be interpreted accordingly. Each Profits Interest holder agrees to take into account such distributive share in computing its federal income tax liability for the entire period during which it holds Profits Interests. The Partnership and each Profits Interest holder agree not to claim a deduction (as wages, compensation or otherwise) for the fair market value of such Profits Interest issued. The provisions of this Section 3.03 shall apply regardless of whether or not a Profits Interest holder files a Code Section

83(b) Election with respect to such Profits Interests. Profits Interest Units are further subject to any limitations and restrictions as provided in the Partnership Agreement. King KOP III B LLC, as the Class B Unit Holder, will receive a Profits Interest.

ARTICLE IV
CAPITAL ACCOUNTS

4.01 CAPITAL ACCOUNT MAINTENANCE. An individual Capital Account shall be established and maintained by the Partnership for each Unit Holder in accordance with the applicable provisions of the Regulations.

(a) The Capital Account of each Unit Holder shall be credited with (i) an amount equal to such Unit Holder or predecessor Partner's Capital Contributions including the amount of any cash contributed and the fair market value of property contributed to the Partnership by such Unit Holder or predecessor Partner, (ii) such Unit Holder's allocable share of the Partnership's items of income and gain, (iii) the amount of any Partnership liabilities assumed by such Unit Holder or that are secured by property distributed to such Unit Holder, and (iv) any other item of income or gain, including Simulated Gain, allocated to it pursuant to this Agreement.

(b) The Capital Account of each Unit Holder shall be debited by (i) the amount of cash and the fair value of property distributed to such Unit Holder, (ii) such Unit Holder's allocable share of the Partnership's items of loss and deduction, (iii) the amount of any liabilities of such Unit Holder assumed by the Partnership or that are secured by any property contributed by such Unit Holder to the Partnership, and (iv) any other item of loss or deduction, including Simulated Depletion and Simulated Loss, allocated to it pursuant to this Agreement.

(c) In addition, for purposes of computing the Capital Accounts of the Unit Holders only: (i) Investor Partners will be allocated a share of the Partnership’s adjusted tax basis in the Partnership’s oil and gas properties in the proportion each Investor Partner’s Capital Contribution bears to the aggregate Capital Contributions of all Investor Partners holding any class of Units (notwithstanding the foregoing, the Unit Holders shall at all times be allocated those percentages of such adjusted tax basis as is necessary to insure that subsequent adjustments to each Unit Holder’s Capital Account for allocations of Simulated Depletion, Simulated Gain, and Simulated Loss do not lack substantial economic effect for purposes of Section 704(b) of the Code);

(ii) the Unit Holders will be allocated Simulated Depletion, based upon cost or percentage depletion as the Managing General Partner may elect, in the same percentages as the adjusted tax basis of the oil and gas properties is allocated, but not in excess of such adjusted tax basis, and the Unit Holders will be allocated Simulated Loss in proportion to each Unit Holder’s distributable share of the total amount realized from the disposition of the oil and gas properties that represents a recovery of the Partnership’s Simulated

Adjusted Tax Basis in such properties; (iii) except as otherwise required by Section 704(c) of the Code, the amount realized by the Partnership from the taxable disposition of any oil and gas properties that represents recovery of the Partnership's Simulated Adjusted Tax Basis in the oil and gas properties shall be allocated to the Unit Holders in the same proportions as the aggregate adjusted tax basis of such properties was allocated to the Unit Holders; and (iv) the portion of the amount realized by the Partnership on its taxable disposition of the oil and gas properties that exceeds the Simulated Adjusted Tax Basis of such properties shall be allocated to the Unit Holders as part of the allocation of Profits in accordance with Section 8.02(a). The Managing General Partner may authorize a reallocation of the Partnership's adjusted tax basis in an oil and gas property in accordance with the requirements of Regulations. For purposes of this Section 4.01(c), Simulated Adjusted Tax Basis, Simulated Depletion, Simulated Gain, and Simulated Loss shall have the meanings set forth in Regulations Section 1.704-1(b). The foregoing rules regarding Capital Account adjustments for adjusted tax basis Simulated Depletion, Simulated Gain, and Simulated Loss are intended to comply with the requirement of Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations.

(d) Except as otherwise provided in this Agreement, whenever it is necessary to determine the Capital Account of any Unit Holder, the Capital Account of the Unit Holder shall be determined after giving effect to all allocations of profits, Simulated Gains, income, gains, losses, deductions, Simulated Losses, Simulated Depletion, and distributions of the Partnership in respect of transactions effected prior to the date as of which such determination is to be made.

(e) The Managing General Partner is authorized to modify the manner in which the Capital Accounts are maintained if the Managing General Partner determines that such modification (i) is required or prudent to comply with the Code or Regulations and (ii) is not likely to have a material adverse effect on the amounts distributable to any Unit Holder upon the dissolution of the Partnership.

4.02 CAPITAL CONTRIBUTIONS AND CAPITAL CALLS.

(a) Capital Contributions. Each Partner shall make an initial Capital Contribution in the amount and at the time required by the Managing General Partner. The Managing General Partner is specifically authorized to accept a Capital Contribution in any form of property or subject to any other contingencies as the Managing General Partner shall determine in its sole discretion.

(b) Capital Calls. The Managing General Partner is authorized to make Capital Calls on the Unit Holders, other than the Class B Unit Holders. The Managing General Partner shall not make a Capital Call on one Unit Holder without making a Capital Call on all Unit Holders other than

Class B Unit Holders. The Managing General Partner shall make any Capital Call on all Unit Holders other than Class B Unit Holders pro-rata, in accordance with the quotient resulting from dividing the Units of any class (other than Class B Units) held by a Unit Holder by all outstanding Units of all classes (other than Class B Units). Each Unit Holder making a Capital Contribution pursuant to a Capital Call shall be issued Units of the same class held by such Unit Holder. Units shall be issued in connection with any Capital Contributions by a Unit Holder pursuant to a Capital Call at a price which is the lesser of $200,000 per Unit or the Capital Contribution required by the Managing General Partner in connection with the most recent issuance of Units of the class of Units held by that Unit Holder. Units issued shall be proportionate to the amount of Capital Call contributed within each class of Units but are not required to be proportionate to Units issued nor the amount of Capital Call contributed by Unit Holders holding a different class of Units. The Managing General Partner may make such Capital Calls for payment of General and Administrative Expenses, Lease Operating Costs, Lease Acquisition Costs or costs of Subsequent Operations, and shall specify the intended use of the proceeds of the Capital Call in the notice of the Capital Call. The Managing General Partner is specifically authorized to borrow monies and/ or use revenues of the Partnership for payment of such expenses and costs in lieu of or in addition to making any Capital Call.

(c) Making of Capital Calls. The Managing General Partner shall make each Capital Call in the manner provided for giving notice under this Agreement. The Managing General Partner shall state in each Capital Call the dollar amount of the Capital Call and the date which may not be earlier than two days after the date of the Capital Call by which good funds must be received by the Managing General Partner. The Managing General Partner may delay payment of a Capital Call as to any Unit Holder without being required to delay payment regarding any other Unit Holder.

(d) Failure to Pay Capital Call. The Managing General Partner may permit other Unit Holders to fund any portion of an unpaid Capital Call and shall issue such Unit Holders those Units that would otherwise have been issued to the Unit Holder who failed to pay the Capital Call, proportionately to each Unit Holder funding such unpaid Capital Call. All allocations of the adjusted tax basis of properties or of profit or Simulated Gain otherwise allocable or allocated to such non-contributing Unit Holder shall be allocated or reallocated as determined by the Managing General Partner to reflect the relative distribution percentages of all Unit Holders following any Capital Call.

If no Unit Holder is able or willing to contribute the Capital Call on behalf of any non- contributing Unit Holder, the Managing General Partner is authorized to issue additional Units of the class held by such non-contributing Unit Holder for such price and upon such terms at the Managing General Partner shall deem appropriate, in its sole discretion, without the vote or approval of any Unit Holders.

(e) Regardless of the above-referenced capital call provisions, the Class A Partners shall have no pre-emptive rights and the Managing General Partner shall have no obligation to provide offer securities issued by the Partnership to Class A Partners before offering such securities to other prospective securities purchasers.

(f) No Partner, except an Additional General Partner or the Managing General Partner, shall be liable for any of the debts of the Partnership, or be required to contribute any capital to the Partnership in addition to the contributions required of him by the provisions of Section 4.02 hereof. If any Partner has a negative balance in its Capital Account on the date of the liquidation of such Partner's "interest in the partnership" (within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations) after taking into account allocations of Profits and Losses and other items of Simulated Gain, Simulated Loss, Simulated Depletion and Distributions of cash or assets (in each case as provided in Article VIII), that Partner shall have no obligation to restore the negative balance or to make any Capital Contribution by reason thereof, and the negative balance shall not be considered an Asset or a liability of the Partnership or of any Partner. Notwithstanding the previous sentence, in the event of the liquidation of the Managing General Partner's or Additional General Partner's interest in the Partnership, the Managing General Partner or Additional General Partner shall contribute to the Partnership an amount of cash equal to (but in no event will it be obligated to contribute more than) the negative balance (if any) in the Managing General Partner's or Additional General Partner's Capital Account. Any amount contributed by the Managing General Partner or Additional General Partner shall be paid to the creditors of the Partnership or distributed to the other Partners, in either case provided in Section 11.03. Any Capital Contribution required hereunder shall be made on or before the later of (a) the end of the taxable year of the Partnership in which such Partner's Partnership interest is liquidated, or (b) the ninetieth day following the date of such liquidation. Notwithstanding any of the foregoing to the contrary, to the extent required by applicable law, a Partner receiving a Distribution in part or full return of his Capital Contribution shall be liable to the Partnership for any sum, not more than such amount returned plus interest, necessary to discharge the liabilities of the Partnership to creditors who extended credit or whose claims arose before such Distribution. Notwithstanding any provision in this Agreement to the contrary, in the event that all or a part of the Partnership's Working Interest in a Well is lost through failure of title, and if it is finally determined that the Partnership is liable to account to a third party for production by reason of the failure of such title, such liability shall be borne by the Managing General Partner and Additional General Partners in the proportions in which they shared in such production revenues.

(g) Any Class A Unit Holder who shall acquire the interest of any other Class shall, with respect to the interest so acquired, be deemed to be a Partner of the same class as its transferor.

(h) No interest shall be paid on any Capital Contributions to the Partnership.

4.03 LOANS TO PARTNERSHIP. To the extent approved by the Managing General Partner, any Unit Holder may make a secured or unsecured loan to the Partnership, and such loan shall not be deemed a Capital Contribution.

4.04 RETURN OF CAPITAL/INTEREST ON CAPITAL. Except upon dissolution and liquidation of the Partnership, there is no agreement for, nor time set for, return of any Capital Contribution of any Unit Holder or distribution of the Capital Account to any Unit Holder. No Unit Holder shall have the right to withdraw its Capital Contributions or Capital Account. No Unit Holder shall be entitled to receive interest on the amount of any Capital Contribution or Capital Account.

4.05 NO RIGHT OF PARTITION. Each Unit Holder expressly waives any right such Unit Holder might have to cause a partition or other distribution of property to it except as otherwise expressly set forth in this Agreement.

4.06 LIMITED PARTNERS NOT LIABLE. Except as stated herein, Limited Partners are not liable for the debts of the Partnership.

ARTICLE V
RIGHTS AND DUTIES OF MANAGING GENERAL PARTNER

5.01 MANAGEMENT. The Managing General Partner shall have full, exclusive, and complete discretion in the management and control of the Partnership, except as specifically limited by this Agreement. No Person, firm, or corporation dealing with the Partnership shall be required to inquire into the authority of the Managing General Partner to take any action or make any decision. The Managing General Partner shall use reasonable efforts to carry out the purposes of the Partnership.

5.02 AUTHORITY OF THE MANAGING GENERAL PARTNER. Without limitation to any rights or authority of the Managing General Partner set forth elsewhere in this Agreement, including without limitation Section 5.01, the Managing General Partner is expressly authorized to do or cause to be done if necessary or appropriate each of the following on behalf of the Partnership and on behalf of any other entity managed in whole or in part by the Partnership or in which the Partnership has an interest without any vote or approval of the Partners:

(a) to determine which oil and gas properties to acquire, develop, operate, sell, assign to other Persons, or abandon and whether to participate, and on what basis, in any proposed operations, and in connection therewith to enter into any partnership agreement, sharing arrangement, or joint venture with any Person acceptable to the Managing General Partner, including affiliates of the Managing General Partner, and which is engaged in any business or transaction in which the Partnership is authorized to engage; provided that such partnership agreement, sharing arrangement, or joint venture does not constitute, in the opinion of the Managing General Partner, an association taxable as a corporation under the Code;

(b) to participate in the drilling, testing, and, if applicable, completion and equipping of any well which the Managing General Partner, in its sole discretion, determines, in each case on a fixed-cost or pro-rata cost basis or a turnkey basis as determined by the Managing General Partner, in its sole discretion, and to agree to plug and abandon any well if such action is determined by the Managing General Partner, acting in its sole discretion, to be in the best interest of the Partnership;

(c) to undertake or participate in Special Projects and Subsequent Operations which it determines would be in the best interest of the Partnership;

(d) to enter into and execute or to assume, on such terms as the Managing General Partner may determine in its sole discretion, Leases and assignments thereof, drilling contracts, completion contracts, operating agreements, contracts for equipment, contracts for the completion of additional zones, farmin or farmout agreements, unitization agreements, pooling agreements, unit or pooling designations, recycling contracts, dry hole, bottom hole, and acreage contribution letters and agreements, participation agreements, agreements and conveyances respecting rights-of-way, agreements respecting the acquisition, installation, and operation of surface facilities, agreements regarding Subsequent Operations and Special Projects, agreements respecting surface and subsurface storage, and any other agreements customarily employed in the oil and gas industry in connection with the acquisition, exploration, development, completion, operation, production, sale, or abandonment of oil and gas properties, and any and all other instruments or documents considered by the Managing General Partner to be necessary or appropriate to conduct the business of the Partnership;

(e) to offer and sell, pledge, store, hedge or otherwise dispose of oil, gas, and other minerals produced, and any interests therein or rights thereto, for periods and on other terms and conditions and subject to such contingencies or defects in title as the Managing General Partner shall determine, including dispositions to affiliates of the Managing General Partner;

(f) to borrow money on behalf of the Partnership, or enter into transactions having a similar leveraging effect on behalf of the Partnership, from any source or with any party, upon such terms and conditions as the Managing General Partner may deem advisable and proper, execute promissory notes, drafts, bills of exchange and other instruments and evidences of indebtedness and secure the payment thereof by mortgage, pledge or assignment of or security interest in all or any part of assets then owned or thereafter acquired by the Partnership, and refinance, recast, modify or extend any of the obligations of the Partnership and the instruments securing those obligations;

(g) to designate additional classes or series of Units or other Partnership Interests and to determine their respective rights, powers, and duties;

(h) to make Capital Calls and to request or accept additional Capital Contributions;

(i) to open, maintain and close accounts with brokers, dealers, banks, commodities traders, and others, and issue all instructions and authorizations regarding the purchase and sale or entering into, as the case may be, of assets, instruments, or agreements consistent with the objectives and purposes of the Partnership, and to authorize checks or other orders for the payment of monies;

(j) to vote at, or give any proxy regarding, any regular or special meeting of the equity owners or creditors of any entity, or give or withhold any consent as an equity owner or creditor;

(k) to exercise or fail to exercise or waive, on behalf of the Partnership, in such manner as the Managing General Partner in its sole judgment deems appropriate, all voting and other rights, elections and options granted or imposed by any governing document or agreement, statute, rule, regulation, or order, including the exercise, modification or waiver of any Executive Rights or participation or consent in connection with any Lease;

(l) to use the funds and revenues of the Partnership, and lend money to the Partnership, on any terms it sees fit, for any purpose, including without limitation the conduct or financing, in whole or in part, of the activities of the Partnership, and the repayment of any loans used to finance such operations or activities;

(m) to dispose of, hypothecate, sell, exchange, release, surrender, assign or abandon, any or all assets of the Partnership including, without limitation, all or any part of the Partnership Properties;

(n) to negotiate and execute on any terms deemed desirable in its sole discretion any account agreements, subscriptions, side letters, limited partnership agreements, limited liability company agreements or any similar documents or instruments, considered useful to the making, management or liquidation of any investment, including without limitation, negotiate and execute any joint operating, participation or similar agreement;

(o) to control any matters affecting the rights and obligations of the Partnership, including instituting or defending litigation and settling claims or litigation, and in connection with such activities, employ attorneys or other professionals to advise and otherwise represent the Partnership;

(p) to exercise the rights granted to it under the power of attorney created pursuant to this Partnership Agreement;

(q) to collect any sums due the Partnership or exercise any right to demand payment of all or any part of any account;

(r) to execute, on behalf of the Partnership, any contracts between the Partnership and any Person (including any Affiliate of the Managing General Partner), providing consulting, engineering, geological, landman, accounting, drilling, completion, management, monitoring or other professional services, on such terms and for such consideration as determined by the Managing General Partner in its sole discretion;

(s) to serve as the Partnership Representative and to make such elections under the Code, state tax laws and other relevant tax laws as to the treatment of items of Partnership income, gain, loss, deduction and credit, and as to all other relevant matters, as may be provided herein or as the Managing General Partner deem necessary or appropriate; including, without limitation, elections referred to in Section 754 of the Code, determination of which items of cash outlay are to be capitalized or treated as current expenses, and selection of the method of accounting and bookkeeping procedures to be used by the Partnership;

(t) to purchase, at the expense of the Partnership, such liability and other insurance as the Managing General Partner deems advisable to protect the Partnership's assets and business or as may be required by the laws of any jurisdiction to which the Partnership is subject, it being the intent hereof to permit the Managing General Partner in its sole discretion to cause the Partnership to elect not to purchase insurance against any or all risks;

(u) to purchase equipment for Partnership purposes, or to lease equipment to or for the account of the Partnership;

(v) to make payment, or in the exercise of its sole discretion omit to make payment, of delay rentals on the Leases or leasehold interests acquired by the Partnership;

(w) to hold title to the Partnership's oil and gas properties in the name of the Partnership or in the name of a nominee or agent chosen by the Managing General Partner, as the Managing General Partner shall deem appropriate;

(x) to perform or cause to be performed for the Partnership all services customarily performed by a management company for oil and gas properties in accordance with sound management practices, including, without limitation, the hiring and firing of Personnel, the furnishing of general and administrative services, preparation of the tax returns of the Partnership, bookkeeping, purchasing of goods, equipment, and supplies, and such other duties as are required for the proper management of operations similar to those of the Partnership;

(y) to guaranty any contract, security or obligation of any other Persons, whereupon the guaranty shall not be subject to attack by any Person having an interest in the Partnership, and the Partnership shall not seek damages from any Person who authorized the guaranty, on the ground that the guaranty cannot reasonably be expected directly or indirectly to benefit the Partnership, notwithstanding any contrary provisions of the TBOC; and

(z) to incur all costs and make all expenditures in any way related to any of the foregoing.

5.03 SCOPE OF POWERS. The powers granted to the Managing General Partner by the Partners under this Agreement shall extend to any venture or other activities participated in by the Partnership or affecting its assets, whether or not the Managing General Partner is the general partner or manager of such other venture or activities.

5.04 OTHER ACTIVITIES. Neither the Managing General Partner or its affiliates nor any other Unit Holders are prevented hereby from engaging in other activities for profit whether in the oil and gas business or otherwise, and the Managing General Partner and its affiliates or any other Unit Holder may organize, contract with, and manage other oil and gas programs and may hold properties or engage in the exploration for and production of oil, gas, and other minerals for their own accounts, jointly or with others, or as managers or equity holders of any other entity. The principals of the Managing General Partner will devote as much of their time, less than full time, to the Partnership's management as they deem appropriate to manage the Partnership.

5.05 SERVICES AND RELIANCE. With respect to Partnership operations, the Managing General Partner may employ or retain such legal counsel, accountants, petroleum engineers, geologists, geophysicists, landmen, appraisers, or other experts or advisors, including affiliates, as it may reasonably deem appropriate for the purpose of discharging its duties with respect to Partnership operations, and shall be entitled to pay the fees of any such Persons from the funds of the Partnership. The Managing General Partner may act, and shall not be liable if acting in good faith, on the opinion or advice of, or information obtained from, any such legal counsel, accountant, engineer, geologist, geophysicist, landman, appraiser, or other expert or advisor, whether retained or employed by the Partnership or any other Person, in relation to any matter connected with the administration or operation of the business and affairs of the Partnership.

5.06 SERVICES AND EQUIPMENT. Affiliates of the Managing General Partner, including King Operating Corporation, may enter into fixed-price contracts with the Partnership for drilling and completing wells or for the incurring of Special Project Costs or Subsequent Operations for any well. The Partnership may purchase or acquire drilling and completion equipment and other equipment necessary in the drilling, completion, equipping, or operation of the Partnership's oil and gas properties from the Managing General Partner or its affiliates.

5.07 TRANSFERS TO PARTNERSHIP. The Managing General Partner or its Affiliates may sell, transfer, or convey any oil and gas properties to the Partnership and in doing so may:

(a) convey a property to the Partnership at a price that includes some element of reasonable compensation to the Affiliate; i.e., for more than the price paid by the Affiliate for the property, provided that such compensation shall be promptly disclosed to all Partners;

(b) convey less than all of its interest in an oil and gas property to the Partnership; and

(c) convey other portions of its interest in an oil and gas property to Persons or entities (including Affiliates of the Managing General Partner) other than the Partnership and on terms different from those received from the Partnership.

5.08 MERGERS, INTEREST EXCHANGES AND CONVERSIONS. The Partnership may be a party to a merger, an interest exchange or a conversion of interests as contemplated by Chapter 10 of the TBOC upon the approval by the Managing General Partner of a plan of merger, exchange, or conversion, as applicable, and otherwise in the manner contemplated by the TBOC.

5.09 LIABILITY FOR CERTAIN ACTS. The Managing General Partner has not guaranteed and shall not have any obligation with respect to the return of a Unit Holder's Capital Contributions or profits from the operation of the Partnership. Notwithstanding any provision of the TBOC, no Managing General Partner of the Partnership shall be liable to the Partnership or to any Unit Holder for monetary damages for an act or omission in the Managing General Partner's capacity as a Managing General Partner, except that this Section 5.09 does not eliminate or limit the liability of a Managing General Partner to the extent the Managing General Partner is found liable for: (i) loss or damage resulting from its intentional misconduct or knowing violation of law; or (ii) a transaction from which the Managing General Partner received an improper benefit. Any repeal or amendment of this Section 5.09 shall be prospective only and shall not adversely affect any limitation on the liability of a Managing General Partner of the Partnership existing at the time of such repeal or amendment. The Managing General Partner shall be entitled to rely on on information, opinions, reports or statements, including but not limited to financial statements or other financial data prepared or presented by: (a) any one or more Unit Holders, Affiliates or employees of the Partnership whom the Managing General Partner reasonably believes to be reliable and competent in the matter presented, (b) legal counsel, public accountants, consultants, or other Persons as to matters the Managing General Partner reasonably believes are within the Person's professional or expert competence, or (c) a committee of Unit Holders of which it is not a member if the Managing General Partner reasonably believes the committee merits confidence.

5.10 INDEMNITY OF PERSONS. The Partnership shall have the power, right and obligation to indemnify Persons as set out here.

(a) The Partnership shall indemnify any Person who was or is a party to or witness in or is threatened to be made a party to or witness in any threatened, pending or completed Proceeding (whether or not by or in the right of the Partnership) by reason of the fact that the Person is or was a Managing General Partner of the Partnership, against expenses (including attorneys' fees, accountants fees, and expenses of investigation), judgments, fines and amounts paid in settlement incurred by such Person, except expenses, judgments, fines and amounts paid in settlement resulting from its intentional misconduct or knowing violation of law or a transaction for which the Managing General Partner received a Personal benefit in violation or breach of the provisions of this Agreement. The Partnership shall advance expenses to any current or former Managing General Partner at such times and in such amounts as shall be requested by such Person. The Partnership shall have the power to indemnify any Person who was or is a party to or witness in or is threatened to be made a party to or witness in any threatened, pending or completed Proceeding (whether or not by or in the right of the Partnership) by reason of the fact that the Person is or was an employee, consultant, independent contractor, general partner, or agent of the Partnership, or is or was serving at the request of the Partnership as a manager, officer, trustee, partner, member, joint venturer, employee, agent or in a similar capacity for another Person, against expenses (including attorneys' fees, accountants fees, and expenses of investigation), judgments, fines and amounts paid in settlement incurred by the Person in connection with such Proceeding, upon the determination by the Managing General Partner that indemnification is appropriate and subject to such terms and conditions or undertakings as the Managing General Partner in its sole discretion shall impose. The Partnership may advance expenses to any such Person at such times and in such amounts as shall be requested by such Person and approved by the Managing General Partner in its sole discretion. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself create a presumption that indemnification or the advancement of expenses by the Partnership was not appropriate or breached any law or constituted a breach of any duty by any Person.

(b) If a Person has been successful on the merits or otherwise as a party to any Proceeding, or with respect to any claim, issue or matter therein arising out of such Person's service to or on behalf of the Partnership (to the extent that a portion of the expenses can be reasonably allocated thereto), the Person shall be indemnified against expenses (including attorneys' fees, accountants fees and expenses of investigation) actually and reasonably incurred by the Person in connection with the Proceeding.

(c) The indemnification provided by this Section 5.10 shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any agreement or action of the Partnership and shall continue as to a Person who has ceased to function in the capacity as to which indemnification is sought and shall inure to the benefit of the heirs, executors, and administrators of such a Person.

(d) The Partnership may purchase and maintain directors' and officers' liability insurance or errors and omissions insurance or similar insurance on behalf of any Person participating in the Partnership, including the Managing General Partner, whether or not the Partnership would have the power to indemnify such Person under the provisions of this Agreement.

5.11 RESIGNATION; REMOVAL.

(a) Resignation. The Managing General Partner of the Partnership may resign at any time after the expiration of two (2) years from the date of this Agreement by giving written notice to the Partners of the Partnership; provided that the Managing General Partner has designated a successor Managing General Partner which is competent and willing to serve as Managing General Partner. The resignation of any Managing General Partner shall take effect upon receipt of notice thereof or at such later time as shall be specified in such notice; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

(b) Removal. The Managing General Partner may be removed only by the affirmative vote or written consent of Partners owning seventy-five percent (75%) or more of outstanding Class A Units, but only if Managing General Partner becomes subject to an Event of Withdrawal. A successor Managing General Partner may be elected only by the affirmative vote or written consent of Partners owning seventy-five percent (75%) or more of outstanding Class A Units.

(c) Rights Not Affected; Sale and Conversion of Interest. The resignation or removal of a Person as a Managing General Partner shall not affect the Person's rights as a Partner or to indemnification and shall not constitute a withdrawal by such Person as a Partner or an Event of Withdrawal as to such Person. Any Contribution Margin accruing after such resignation or removal shall be paid to the successor Managing General Partner. The Managing General Partner's interest in the Partnership shall be converted into a Limited Partner's interest in Class B Units upon resignation or removal and shall continue to be entitled to its pro-rata interest in distributions, including any subsequent change in the percentage of distributions provided under this Agreement. Thereafter, the Managing General Partner shall share in allocations of Profit and Loss and in distributions as a Limited Partner and shall be deemed to own the number of Class B Units proportional to its interest in distributions from time to time. The Managing General Partner shall be relieved and released from all obligations and liabilities as a General Partner accruing after the date of resignation or removal.

5.12 LIMITS ON AUTHORITY OF MANAGING GENERAL PARTNER. Notwithstanding the generality of the foregoing, the Managing General Partner shall not be empowered and shall not do, perform, or authorize any of the following:

(a) do any act in contravention of this Agreement;

(b) except as specifically permitted by Article XI, do any act which would make it impossible to carry on the ordinary business of the Partnership;

(c) confess a judgment against the Partnership;

(d) possess Partnership property or assign any rights in specific Partnership property for other than a Partnership purpose;

(e) receive any benefit from an arrangement for marketing of oil and gas production owned by the Partnership, unless such benefits are fairly and equitably apportioned among Managing General Partner and the Partnership in proportion to respective ownership rights;

(f) require any Unit Holder to make any contribution to the capital of the Partnership not provided for herein; or

(g) make any loans or advances from the Partnership to the Managing General Partner and/ or its Affiliates or to any other Unit Holder.

5.13 COMPENSATION AND REIMBURSEMENT OF MANAGING GENERAL PARTNER.

(a) The Managing General Partner shall be reimbursed by the Partnership for General and Administrative Expenses which it may incur which are attributable to the operation of the Partnership, excluding costs or expenses reimbursed as Organization and Offering Expenses. Amounts paid or reimbursed to the Managing General Partner or its Affiliates shall not exceed reasonable and customary compensation in the same general geographic area for similar services.

(b) The Partnership shall reimburse the Managing General Partner or its Affiliates for Organization and Offering Expenses as provided in the private placement memoranda or other offering documents for each offering. In addition, the Partnership will use a portion of the Class A Unit Holders' Capital Contributions to reimburse King KOP III B LLC, for such pre-formation expenses that were incurred by King KOP III B LLC, on behalf of the Partnership, including expenses incurred to acquire the leases/ acreage before the Partnership was formed.

(c) Except as specifically provided in the Agreement, the Partnership shall not pay the Managing General Partner any Contribution Margin or management fee, except as approved pursuant to this paragraph. Any Contribution Margin paid to the Managing General Partner shall be deemed a Guaranteed Payment as described in Section 8.07.

(d) The Partnership is a party to that certain Management and Maintenance Agreement by and between the Partnership and King Operating Corporation dated effective as of October 29, 2024, as amended ("Management and Maintenance Agreement"), under which King Operating Corporation is paid a Contribution Margin, included as Exhibit C to the Offering Memorandum for the Class A Units. King Operating Corporation is an Affiliate of the Managing General Partner. The Partners agree that the Partnership is bound by the provisions of such Management and Maintenance Agreement. By entering into this Partnership Agreement, Class A Partners are also acknowledging and agreeing to waive the conflicts of interest inherent in the Management and Maintenance Agreement, specifically having affiliated entities on both sides of the agreement, the lack of arm's length negotiation, the lack of taking bids from other potential service providers to determine the market conditions and prices for the services provided under the Management and Maintenance Agreement.

(e) The Partnership shall pay or reimburse the Managing General Partner for any fees, commissions, broker fees, or other costs, expenses, or fees related to or arising from the acquisition or divestiture of Partnership Properties, limited to up to 3% of the purchase or sale price (the "Acquisition/ Disposition Fee"). Any Acquisition/ Disposition Fee paid to the Managing General Partner shall be treated as a Guaranteed Payment for federal income tax purposes. Such Acquisition/ Disposition Fee shall apply to the Partnership's acquisition of Partnership Properties that occurred prior to the formation of the Partnership. Such Acquisition/ Disposition Fee would be applied to a Capital Transaction only in the course of engaging a third-party brokerage arrangement for the Capital Transaction.

ARTICLE VI
RIGHTS AND OBLIGATIONS OF PARTNERS

6.01 LIMITATION ON LIABILITY. The liability of each Unit Holder shall be limited as set forth in the TBOC and this Agreement. No Unit Holder holding Units as a Limited Partner shall have any Personal liability for any debts or losses of the Partnership, by virtue of its status as a Unit Holder, but may, by written agreement, agree to be obligated Personally for any or all debts, obligations, and liabilities of the Partnership. Notwithstanding any provision of the TBOC, no General Partner shall be liable to the Partnership or to any Unit Holder for monetary damages for an act or omission in the General Partner's capacity as a General Partner, except that this Section 6.01 does not eliminate or limit the liability of a General Partner to the extent the General Partner is found liable for: (i) loss or damage resulting from its intentional misconduct or knowing violation of law; or (ii) a transaction from which the General Partner received an improper benefit. Any repeal or amendment of this Section 6.01 shall be prospective only and shall not adversely affect any limitation on the liability of a General Partner existing at the time of such repeal or amendment.

6.02 PARTICIPATION IN MANAGEMENT. No Partner (including any Additional General Partner) other than the Managing General Partner shall have any right to participate in the management of the Partnership, or to act for or bind the Partnership, solely by virtue of its status as a Partner of the Partnership.

6.03 VOTING RIGHTS. The Partners who are Class A Unit Holders shall not have the right to vote upon any matter except as specifically provided by this Agreement and shall have only those voting rights specifically provided by this Agreement. The Partners who are Class B Unit Holders shall have all the voting rights as to any any matter except as specifically provided by this Agreement. Any action requiring the consent or approval of the Partners with rights to vote under this Section 6.03 under the provisions of this Agreement shall be taken only if the consent or approval of the requisite percentage of voting interest of Partners is evidenced by written instruments executed by such consenting or approving Partners. The Partners who are Class B Unit Holders shall be entitled to one vote for each Unit held, on each matter on which the Partners who are Class B Unit Holders shall be entitled to vote pursuant to the terms of this Agreement. Except as otherwise specifically provided in this Agreement, any action or decision (including any decision to refrain from any action) may be taken by the Managing General Partner without the consent or approval of the Partners, including the Partners who are Class B Unit Holders. Without limitation, the Managing General Partner is specifically authorized to negotiate, agree to and execute a sale of assets of the Partnership without a vote of the Partners, including the Partners who are Class B Unit Holders.

6.04 WITHDRAWAL OF PARTNER. A Partner other than the Managing General Partner may withdraw as a Partner at any time, and thereafter shall have the rights of a Unit Holder who has not been admitted as a Partner. A Partner other than the Managing General Partner who is subject to an Event of Withdrawal shall cease to be a Partner as of the date of the Event of Withdrawal and shall thereafter have the rights of a Unit Holder who is not admitted as a Partner.

6.05 TRADE SECRETS. Each Unit Holder acknowledges that it may have access to and may be entrusted with certain non-public information pertaining to the present and contemplated business activities of the Partnership or of third parties with whom it contracts, which information includes, but is not limited to, information regarding industry relationships, areas of interest, geological and engineering information, drilling and completion operations, Subsequent Operations, capital markets contacts, infrastructure and logistics, and information regarding other Unit Holders, including their names, addresses, telephone numbers, contact information, investment policies, financial condition and investment portfolio (all of which information is referred to here as Partnership Trade Secrets). Each Unit Holder acknowledges that the disclosure of such Partnership Trade Secrets to any other party would be detrimental to the interests of the Partnership. Each Unit Holder acknowledges and agrees with the Partnership that such Partnership Trade Secrets are the proprietary information of the Partnership and/ or of the third parties and shall be treated by each Unit Holder as confidential information of the Partnership, and that none of said Partnership Trade Secrets or the facts contained therein shall be transmitted verbally or in writing by any Person except as may reasonably be required in the ordinary course of conducting business on behalf of the Partnership. Each Unit Holder covenants and agrees with the Partnership that it will not disclose such Partnership Trade Secrets, nor use the Partnership Trade Secrets other than as may reasonably be required in the normal course of the business of the Partnership; provided, that any Person (or its representative) may disclose any such information: (a) as has become generally available to the public other than through violation of this Agreement; (b) as may be required or appropriate in any report, statement or testimony submitted to any governmental authority having or claiming to have jurisdiction over such Person (or its representative) but only that portion of the data and information which, in the written opinion of counsel for such Person or representative is required or would be required to be furnished to avoid liability for contempt or the imposition of any other material judicial or governmental penalty or censure; (c) as may be required or appropriate in response to any summons or subpoena or in connection with any litigation; (d) as expressly permitted under this Agreement; or (e) as to which the Partnership has consented in writing. Notwithstanding anything herein to the contrary, any Person (and representative of such Person) may disclose to appropriate state and federal tax authorities such Person's U. S. federal income tax treatment and the U. S.

federal income tax structure of the transactions contemplated hereby relating to such Person and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure. These provisions shall continue to bind any Partner who is subject to an Event of Withdrawal and shall bind any Unit Holder.

Each such Person acknowledges and agrees that in the event of a real or threatened breach by such Person of any of the provisions contained in this Section 6.05, the Partnership and each Partner shall be entitled to commence Proceedings in a court of competent jurisdiction located in Dallas, Dallas County, Texas for and be entitled to obtain preliminary and/ or permanent injunctive relief or other appropriate equitable remedies, which rights and remedies shall be in addition to any other rights or remedies to which they may be justly entitled at law.

6.06 COMPETING ACTIVITIES. Each Unit Holder may engage or continue to engage in activities within the oil and gas industry, and in businesses related to such industries. Any Unit Holder or its Affiliates may have business dealings with the Partnership. These activities shall not be construed as a conflict of interest with the Partnership or as a conflict of interest regarding any vote within the Partnership or as a violation of any duty to the Partnership or to any other Unit Holder.

6.07 RECORD DATE. For the purpose of determining Partners entitled to notice of a meeting or to give consent, or Unit Holders entitled to receive payment of any distribution, or in order to make a determination of Unit Holders for any other purpose, the date on which notice of the meeting is mailed or the consent is dated or the date on which such distribution is made, as the case may be, shall be the record date for such determination unless the Managing General Partner shall specify another record date.

ARTICLE VII
ADDITIONAL GENERAL PARTNERS

7.01 CONVERSION OF ADDITIONAL GENERAL PARTNER INTERESTS. No later than January 1 of each year immediately following the calendar year of the Partnership in which the Partnership has expended all Capital Contributions contributed by Investor Partners for the exploration and development activities with respect to the wells in which it participates as a Working Interest owner, the Additional General Partners who are also own Class A Units will be converted to Limited Partners, unless the Managing General Partner determines that such conversion at that time would not be in the best interests of the Additional General Partners subject to conversion or the Partnership. With regard to the determination of expended all Capital Contributions contributed by Investor Partners as described above, because of the Prepayment Requirements and Provisions of the Management and Maintenance Agreement, as of December 31st, for Partnership funds which have been remitted to King Operating Corporation, such funds should be deemed as having been expended. If conversion is so delayed, the Managing General Partner will continue to have the power and authority to cause such conversion as to any Additional General Partner with the consent of such Additional General Partner at any time within a Fiscal Year. On January 1 of any subsequent year during the term of the Partnership the Additional General Partners who are also Investor Partners will be converted to Limited Partners, unless the Managing General Partner determines that such conversion at that time would not be in the best interests of the Additional General Partners subject to conversion or the Partnership. The Managing General Partner shall have the right to convert some but not all Additional General Partners, depending on the status of applying the special allocations as described in Article 8.04 allocated to each Additional General Partner. The Managing General Partner shall have the right to convert any Class B Partner from an Additional General Partner to a Limited Partner at any time in the sole discretion of the Managing General Partner. Immediately following any conversion, the Managing General Partner will (a) prepare a partnership resolution effective January 1st removing the applicable Additional General Partners as general partners of the Partnership, and (b) take such other actions as are necessary or appropriate to accomplish conversion of the interests to a limited partnership interest status. Upon preparation of the partnership resolution reflecting conversion of the former Additional General Partners to Limited Partners, the conversion shall be effective, and thereafter each such Additional General Partner shall have the rights and obligations of a Limited Partner and will be entitled to limited liability to the extent provided by the TBOC; provided, however, that Additional General Partners will remain liable to the Partnership for their proportionate share of Partnership obligations and liabilities arising prior to the conversion of their Additional General Partner interests in the Partnership to Limited Partner interests.

7.02 PARTICIPATION IN MANAGEMENT. The Partners have elected to delegate to the Managing General Partner authority to manage, control, administer and operate the property and business of the Partnership. Each Partner agrees that no Partner other than the Managing General Partner shall have the right to act as an agent of the Partnership or to execute documents on behalf of the Partnership. Further, each Partner agrees that no Partner or group of Partners (including Additional General Partners) shall have the right to act (other than as specifically provided in this Agreement) to cause the Managing General Partner on behalf of the Partnership to take any action binding on the Partnership. Still further, each Partner agrees that no Partner or group of Partners may cause a Partner to be authorized to act on behalf of the Partnership without such Partner having become the duly elected and appointed Managing General Partner. Any Partner who takes action contravening this Section agrees to indemnify the Partnership and all other Partners from any loss, liability or expense caused by such action.

7.03 LIABILITY ALLOCATION. Notwithstanding the joint and several liability between the Managing General Partner and the Additional General

Partners, they hereby agree that each shall be solely and individually responsible only for his pro rata share of liabilities and obligations of the Partnership, and any Partner who incurs liability in excess shall be entitled to contribution from other such Partners.

ARTICLE VIII
ALLOCATION OF PROFITS AND LOSSES AND DISTRIBUTIONS TO PARTNERS

8.01 DISTRIBUTIONS.

(a) All distributions should be made only from the Net Operating Cash Flow of the Partnership, unless otherwise determined by the Managing General Partner in its sole discretion. Distributions shall be subject to any covenants or agreements with lenders and shall not be made except in compliance with such covenants and agreements. Notwithstanding Section 8.01(c), as soon as practical after the end of each calendar month, the Partnership shall endeavor to make a distribution to each Unit Holder calculated at the highest marginal federal income tax rate for individuals on the aggregate amount of the net positive income and gain allocations to such Unit Holder's Capital Account during such calendar month. The amount distributed under this Section 8.01(a) shall be included in the calculation of the amount distributed to each Unit Holder for purposes of determining whether Return of Subscribed Capital has occurred.

(b) The Managing General Partner shall have the sole discretion to determine at any time a distribution is made whether any additional distribution shall be made and the amount, if any, of such distribution. The Managing General Partner is specifically authorized to reinvest revenues and proceeds of the sale of any asset.

(c) Subject to Section 11.03, Net Operating Cash Flow, as determined by the Managing General Partner, shall be apportioned among the Class A Unit Holders in proportion to their pro-rata percentage of Class A Units owned. This amount shall be further apportioned and distributed between the Class A Unit Holders and the Class B Unit Holder as follows:

(i) 80% to each Class A Unit Holder until such Class A Unit Holder has received cumulative distributions equal to such Class A Unit Holder's total Subscribed Funds and 20% to the Class B Unit Holder, pro-rata; and

60% to each Class A Unit Holder after each such Class A Unit Holder has received cumulative distributions of such Partner's total Subscribed Funds and 40% to the Class B Unit Holder, pro-rata.

(iii) A newly admitted Partner shall participate in distributions to the class of Units held as of the first day of the production month, to which the distribution relates, following the month in which the Partner was admitted in accordance with the definition of Class Sharing Ratio set forth in Section 2.01.

(iv) The Managing General Partner shall incur no liability for any distribution even though such distribution results in the Partnership retaining insufficient funds for the operation of its business or incurring a loss or requires the sale of additional Units or the borrowing of funds by the Partnership. Distributions shall be made, as appropriate, to a transferee of a Partnership Interest.

(ii)

(d) Subject to Section 11.03, Net proceeds from a Capital Transaction, as determined by the Managing General Partner, shall be apportioned among the Class A Unit Holders in proportion to their pro-rata percentage of Class A Units owned. This amount shall be further apportioned and distributed between the Class A Unit Holders and the Class B Unit Holder as follows:

(i) 100% to each Class A Unit Holder until each such Class A Unit Holder has received cumulative distributions equal to such Class A Unit Holder's total Subscribed Funds; and

60% to each Class A Unit Holder after each such Class A Unit Holder has received cumulative distributions of such Partner's total Subscribed Funds and 40% to the Class B Unit Holder, pro-rata.

(e) Distributions of amounts not subject to Sections 3.02(b), 8.01(a), 8.01(c), 8.01(d), or 11.03 shall be made by the Managing General Partner in its sole discretion.

8.02 ALLOCATION OF PROFIT OR LOSS. All allocations of items of Profit and Loss shall be allocated in accordance with provisions of this Agreement. "Profit" or "Loss" means, at all times during the existence of the Partnership, the profit or loss of the Partnership with respect to each fiscal year, determined in accordance with Section 704(b) of the Code and applicable Regulations, including, without limitation, each item of Partnership income, gain, loss, or deduction. Allocations shall be made, as appropriate, to a transferee of a Partnership Interest.

(a) Allocation of Profits and Losses from Operations. Subject to Section 8.02(b) describing Profit and Loss allocations attributable to Capital Transactions and liquidation, and after giving effect to the Special Allocations described in Sections 8.04 and the Regulatory Allocations set forth in Section 8.05, Profits and Losses for any Fiscal Year shall be allocated to the Unit Holders in the following order and priority:

(i) Profits. Subject to Section 8.02(b) describing Profit allocations attributable to Capital Transactions and liquidation, and after giving effect to the Special Allocations described in Sections 8.04 and the Regulatory Allocations set forth in Section 8.05, Profits for any Fiscal Year shall be allocated to the Unit Holders in the following order and priority:

(A) First, to the Unit Holders, pro-rata, in proportion to and, to the extent of all distributions received by each such Unit Holder under Section 8.01(c) with respect to such Fiscal Year and all prior Fiscal Years, determined on a cumulative basis, less the cumulative amount of Profits previously allocated to such Unit Holders pursuant to this Section 8.02(a)(i)(A);

(B) Then to the Unit Holders, pro-rata, in proportion to, and to the extent of, any Losses previously allocated to them pursuant to Section 8.02(a)(ii)(B) below until the cumulative amount of Profits allocated under this Section 8.02(a)(i)(B) equals the cumulative amount of such Losses; and

(C) Then, to the Unit Holders, pro-rata, in proportion to, and to the extent of, any Losses previously allocated to them pursuant to Section 8.02(a)(ii)(A) below until the cumulative amount of Profits allocated under this Section 8.02(a)(i)(C) equals the cumulative amount of such Losses.

(ii) Losses. Subject to Section 8.02(b) relating to Loss allocations on Capital Transactions and liquidation and after giving effect to the Special Allocations described in Sections 8.04 and the Regulatory Allocations set forth in Section 8.05, Losses for any Fiscal Year shall be allocated to the Unit Holders in the following order and priority:

(A) First, to the Unit Holders pro-rata, in proportion to, and to the extent of, the positive balances in their respective Capital Accounts; and

(B) Then, to the Unit Holders, pro-rata, in proportion to their respective distribution percentages in Section 8.01(c)(i)-(ii), as determined by the Managing General Partner in its sole discretion.

(b) Allocation of Profits and Losses on Liquidation/ Capital Transaction. After giving effect to the Special Allocations set forth in Section 8.04, and the Regulatory Allocations set forth in Section 8.05, for any Fiscal Year in which a Capital Transaction or liquidation occurs, Profits and Losses shall be allocated to the Unit Holders in such amounts as may be necessary or appropriate to cause the Capital Account balance of each Unit Holder (as adjusted through the end of such Fiscal Year) to equal, as nearly as possible, (i) the amounts such Unit Holder would receive if all assets on hand at the end of such year were sold for cash at the Gross Asset Values reflected for such assets on the books of the Partnership, any Unit Holder that was obligated to contribute any amount to the Partnership pursuant to this Agreement or otherwise contributed such amount to the Partnership, all liabilities of the Partnership were satisfied in cash in accordance with their terms (limited in the case of partnership nonrecourse liabilities and partner nonrecourse debt to the Gross Asset Value of the property securing such liabilities) and any remaining cash was distributed to the Unit Holders in accordance with the provisions for distributions to the Unit Holders in effect from time to time under Section 8.01(d), taking into account any anticipated change in distributions, minus (ii) an amount equal to such Partner's allocable share of partnership minimum gain and partner nonrecourse debt minimum gain as computed on the last day of such fiscal year or other period in accordance with the applicable Regulations.

(c) Notwithstanding any provision of this Agreement to the contrary, Partnership Losses allocated pursuant to Section 8.02(a) and Section 8.02(b) to any Unit Holder for any taxable year shall not exceed the maximum amount of Partnership Losses that may be allocated to such Unit Holder without causing such Unit Holder to have an Adjusted Capital Account Deficit at the end of such taxable year.

(d) All Partnership Losses in excess of the limitation set forth in Section 8.02(c) shall be allocated solely to the other Unit Holders pursuant to Section 8.02(a) and Section 8.02(b).

(e) If no other Unit Holder may receive an additional allocation of Partnership Losses pursuant to Section 8.02(d), such additional Losses shall be allocated solely to the Additional General Partners as determined by the Managing General Partner.

(f) The Managing General Partner shall have the sole discretion to allocate and reallocate items of Profit and Loss so as to conform each Unit Holder's Capital Account to such Unit Holder's rights to distributions under Sections 8.01(a) and 8.01(c), insofar as reasonably possible. The allocation provisions herein are intended to comply with applicable provisions of the Code, including Regulations promulgated under Section 704 of the Code, and successor statutes and Regulations thereof, and shall be interpreted and applied in a manner consistent with the Code and Regulations. In the event that the Code or the Regulations require allocations of items of income, gain, loss, deduction, or credit different from those set forth in this Article VIII, the Managing General Partner is hereby authorized to make new allocations in reasonable, good faith reliance on the Code and such Regulations, and no such new allocation will give rise to any claim or cause of action by any Partner.

8.02 ALLOCATION IN THE EVENT OF TRANSFER. If a Partnership Interest is transferred in accordance with the provisions of this Agreement there shall be allocated to each Person who held the transferred interest during the fiscal year of transfer the product of (a) the Partnership's Profit or Loss allocable to such transferred interest for such fiscal year, and (b) a fraction the numerator of which is the number of days such Person held the transferred interest during such fiscal year and the denominator of which is the total number of days in such fiscal year; provided, however, that the Managing General Partner may in its sole discretion allocate such Profit or Loss by closing the books of the Partnership immediately after the transfer of an interest or by any other reasonable method permitted by Section 706 of the Code. Such allocation shall be made without regard to the date, amount, or recipient of such transferred interest.

8.03 SPECIAL ALLOCATIONS.

(a) Lease Acquisition Costs incurred in connection with the initial acquisition of the Partnership Properties by the Partnership shall be specially allocated to the Unit Holders other than the Class B Unit Holders in proportion to their Units held.

(b) Pursuant to the provisions of the Code, all depletion deductions with respect to oil and gas properties in which the Partnership holds a direct or indirect interest shall be computed by the Unit Holders separately rather than the Partnership. Simulated Gain, Simulated Depletion and Simulated Losses shall be allocated among the Partners in accordance with Section 4.01(c). Each Partner shall be allocated an adjusted tax basis in each separate oil and gas property and any depletion computed with respect thereto, both as computed in accordance with the Code and this Agreement. Depletion deductions shall be allocated on the basis of Net Operating Cash Flow, as determined by the Managing General Partner in its sole discretion.

(c) All costs which are immediately deductible under Section 168(k) of the Code ("Qualified Depreciation Expenses") and all other depreciation deductions shall be specially allocated among the Investor Partners so that the cumulative amount of all such depreciation deductions allocated to the Investor Partners, at any time, is always in proportion to their Capital Contributions, except that, in making such special allocations of depreciation deductions to the Investor Partners, an Investor Partner may only be allocated such depreciation deductions attributable to a period arising on or after the date on which such Investor Partner was admitted to the Partnership (as and to the extent determined under Code Section 168 and 706). In the event the Managing General Partner shall determine that such result is not likely to be achieved through such special allocations of such depreciation deductions under this Section 8.04(d), the Managing General Partner may allocate a portion of Profits or Losses so as to achieve the same effect on the Capital Accounts of the Investor Partners, notwithstanding any other provision of this Agreement to the contrary. The Partnership shall make an election to expense Qualified Depreciation Expenses.

(d) All Intangible Drilling Costs deductible under Section 263(c) of the Code shall be specially allocated among the Investor Partners so that the cumulative amount of such Intangible Drilling Cost deductions allocated to the Investor Partners at any time is always in proportion to their Capital Contributions, except that, in making such special allocations of such Intangible Drilling Cost deductions to the Investor Partners, an Investor Partner may only be allocated deductions arising on or after the date on which such Investor Partner was admitted to the Partnership. For purposes of the preceding sentence, a deduction shall not be deemed to arise on or after the date on which an Investor Partner is admitted to the Partnership to the extent that the "cash accounting rule" (as described in Code Section 706(d)(2)) attributes such deduction to any period prior to the admission of such Investor Partner. In the event the Managing General Partner shall determine that such result is not likely to be achieved through such special allocations of such Intangible Drilling Cost deductions under this Section 8.04(e), the Managing General Partner may allocate a portion of Profits or Losses so as to achieve the same effect on the Capital Accounts of the Investor Partners, notwithstanding any other provision of this Agreement to the contrary. The Partnership shall make an election to expense Intangible Drilling Costs.

8.04 REGULATORY ALLOCATIONS. The following special allocations shall be made in the following order:

(a) Minimum Gain Chargeback. If there is a net decrease in Partnership minimum gain during a Partnership taxable year, each Unit Holder shall be allocated before any other allocation is made pursuant to this Section 8.05 items of income and gain for such year (and, if necessary, for subsequent years) equal to that Unit Holder's share of the net decrease in partnership minimum gain. A Unit Holder's share of the net decrease in partnership minimum gain shall be determined in accordance with the Regulations. This Section 8.05(a) is intended to comply with the minimum gain chargeback requirement of the Regulations and shall be interpreted consistently therewith.

(b) Partner Minimum Gain Chargeback. If there is a net decrease in minimum gain attributable to a Partner nonrecourse debt (determined pursuant to the Regulations) during any Partnership taxable year, certain items of income and gain shall be allocated (on a gross basis) as quickly as possible to those Unit Holders who had a share of the minimum gain attributable to the Partner nonrecourse debt (determined pursuant to the Regulations) in the amounts and manner described in the Regulations. This Section 8.05(b) is intended to comply with the minimum gain chargeback requirement set forth in the Regulations relating to partner nonrecourse debt and shall be interpreted consistently therewith.

(c) Qualified Income Offset Allocation. In the event any Unit Holder unexpectedly receives any adjustments, allocations or distributions described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6) which would cause the negative balance in such Unit Holder's Capital Account to exceed the sum of (1) its obligation to restore a Capital Account deficit upon liquidation of the Partnership, plus (2) its share of partnership minimum gain, plus (3) such Unit Holder's share of partner nonrecourse debt minimum gain, items of Partnership income and gain shall be specially allocated to such Unit Holder in an amount and manner sufficient to eliminate such excess negative balance in its Capital Account as quickly as possible. This Section 8.05(c) is intended to comply with the "qualified income offset" requirement and the alternative test for economic effect set forth in the Regulations and shall be interpreted consistently therewith.

(d) Gross Income Allocation. If any Partner has an Adjusted Capital Account Deficit, such Partner shall be specially allocated items of income and gain in the amount of such deficit as rapidly as possible, provided that an allocation pursuant to this Section 8.05(d) shall be made if and only to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided for in this Agreement have been tentatively made as if this Section 8.05(d) were not in this Agreement.

(e) Partner Nonrecourse Deductions. Partner nonrecourse deductions determined pursuant to the Regulations shall be allocated pursuant to the Regulations to the Unit Holder who bears the economic risk of loss with respect to such deductions.

(f) Nonrecourse Deductions. Nonrecourse deductions determined pursuant to the Regulations shall be allocated pursuant to the Regulations to the Unit Holders as determined appropriate by the Managing General Partner.

(g) Basis Adjustment. To the extent an adjustment to the adjusted tax basis of any Partnership assets is required, pursuant to the Code or Regulations, to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain, if the adjustment increases the basis of the asset, or loss, if the adjustment decreases such basis, and such gain or loss shall be specially allocated to the Unit Holders in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to the Regulations.

(h) Curative Allocations. The allocations set forth in the preceding provisions of Section 8.05 are intended to comply with certain requirements of the Regulations. Notwithstanding any other provision of this Article VIII, such allocations shall be taken into account in allocating profits and losses and items of Partnership income, gain, loss and deductions to the Unit Holders so that, to the extent possible, the net amount of such allocations of profits and losses and other items and those allocations to each Unit Holder in the current and future periods shall be equal to the net amount of items that would have been allocated to each such Unit Holder if the allocations under the preceding provisions of Section 8.05 had not occurred.

(i) Recapture. All recapture of income tax deductions resulting from the disposition of Partnership property (e.g., under Sections 1245, 1250 and 1254 of the Internal Revenue Code) shall, to the maximum extent possible, be allocated to the Partner to whom the deduction that gave rise to such recapture was allocated hereunder to the extent that such Partner is allocated any gain from the disposition of such property.

8.05 ADJUSTMENT OF GROSS ASSET VALUES. Any item of gain or loss resulting from an adjustment of the Gross Asset Value of a Partnership asset shall be allocated to the Unit Holders in accordance with the provisions for distributions to the Unit Holders in effect from time to time, taking into account any anticipated change in distributions. Any adjustment to the Gross Asset Value of a Partnership asset pursuant to the definition of Gross Asset Value in this Agreement shall thereafter be taken into account as a built-in gain or loss for purposes of Code Section 704(c). The allocations described in this Section 8.06 shall be made using any method permitted under Regulations Section 1.704-3, as determined by the Managing General Partner, in its sole discretion.

8.06 GUARANTEED PAYMENT. Any fees, salaries, or similar compensation payable to a Partner pursuant to this Agreement shall be deemed a Guaranteed Payment for federal income tax purposes and not a distribution to such Partner for such purposes. Such payments to a Partner shall not reduce the Capital Account of such Partner, except to the extent of its distributive share of any Partnership Losses or other downward capital adjustment resulting from such payment. To the extent any compensation paid to any Unit Holder by the Partnership is determined by the IRS not to be a Guaranteed Payment under Code Section 707(c) or is not paid to the Unit Holder other than in the Person’s capacity as a Unit Holder within the meaning of Code Section 707(a), the Unit Holder shall be specially allocated gross income of the Partnership in an amount equal to the amount of that compensation, and the Unit Holder’s Capital Account shall be adjusted to reflect the payment of that compensation.

8.07 AGREEMENTS WITH AND PAYMENTS TO AFFILIATES OF MANAGING GENERAL PARTNER. The Partnership intends to make payments to King Operating Corporation, an Affiliate of the Managing General Partner, under the Management and Maintenance Agreement for drilling, development, management, and other related services. King Operating Corporation will be the Operator on the designated properties. Any such payments made under such agreement may be for services that could be provided by an unrelated third-party at a lower cost.

8.08 CONTRIBUTED PROPERTY.

(a) Profit or Loss with respect to any property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Unit Holders so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its value at the time of the contribution of such property to the Partnership in accordance with Code Section 704(c). The allocations described in this Section 8.09 shall be made using any method permitted under Regulations Section 1.704-3, as determined by the Managing General Partner, in its sole discretion.

(b) Allocation of Nonrecourse Liabilities. For the avoidance of doubt, in 2024 and subsequent years, allocations of Partnership non-recourse liabilities among the Partners for purposes of Code Section 752 shall be made in a manner consistent with the principles and ordering rules of applicable Regulations, unless the Managing General Partner determines otherwise in its sole discretion; however, the figures referenced in Section 8.10(a) may change based on numerous factors.

8.09 PARTNERSHIP WITHHOLDING. Should the Partnership be required, pursuant to the Code, the laws of any state or any other provision of law, to withhold any amount from amounts otherwise distributable to any Unit Holder or on the basis of income allocable to any Unit Holder, the Partnership shall withhold those amounts, and any amounts so withheld shall be deemed to have been distributed to that Unit Holder under this Agreement. If any sums are withheld pursuant to this provision, the Partnership shall remit the sums so withheld to, and file the required forms with, the Internal Revenue Service, or the appropriate authority of any such state or other applicable government agency. In the event of any claimed over-withholding, a Unit Holder shall be limited to an action against the Internal Revenue Service, or the appropriate authority of any such state or other applicable government agency, for refund and each Unit Holder hereby waives any claim or right of action against the Partnership on account of such withholding. Furthermore, if the amounts required to be withheld exceed the amounts which would otherwise have been distributed to a Unit Holder, the Unit Holder shall contribute any deficiency to the Partnership within ten (10) days after notice from the Partnership. If the deficiency is not contributed within that time, such failure shall constitute a liability of that Unit Holder, and the Unit Holder shall be liable for interest on the amount of such deficiency from the date of notice until paid at an annual rate equal to the lesser of twelve percent (12%) or the highest rate permitted by law. This deficiency shall be repaid in full within ten (10) days after demand (and for this purpose any Partner other than the Unit Holder on whose account such deficiency was made may unilaterally make such demand for and on behalf of the Partnership), and otherwise shall be repaid, without prejudice to any other remedies at law or in equity that the Partnership may have, out of distributions to which the debtor Unit Holder would otherwise subsequently be entitled under this Agreement.

ARTICLE IX

BOOKS AND RECORDS

9.01 RECORDS AND REPORTS. At the expense of the Partnership, the Managing General Partner shall maintain records and accounts of all operations and expenditures of the Partnership. The books and records of the Partnership shall be prima facie evidence of the Persons who have been admitted as Partners and of the Unit Holders entitled to allocations and distributions. The Partnership shall not be required to recognize the claim of any other Person to any Capital Account, Partnership Interest or Unit. The Partnership shall keep at its principal place of business the following records:

(a) A current list of the full name and last known address of each Unit Holder, and its Capital Contributions and Units;

(b) Copies of records to enable a Partner to determine the relative voting rights, if any, of the Partners;

(c) A copy of the Certificate of Formation of the Partnership and all amendments thereto;

(d) Copies of the Partnership's federal, state, and local income tax returns and reports, if any, for the three most recent years;

(e) Copies of this Agreement, together with any amendments thereto; and

(f) Copies of any financial statements of the Partnership for the three most recent years.

9.02 EXAMINATION OF BOOKS AND RECORDS. The books and records shall at all times be maintained at the principal office of the Partnership. Records identified in TBOC Section 153.551 shall, for a proper purpose and provided that such records are reasonably related to and appropriate to examine for such proper purpose, shall be open to the examination by the Partners or their assignees at a reasonable time at the Partnership's principal office or other location approved by the Partnership and the Partner or assignee, all in compliance with TBOC Section 153.552. If such examination includes access to the Partnership's or its Unit Holders' confidential information, the Partnership may require the Partner or assignee requesting the inspection to execute an agreement to keep such information confidential and not to use such information other than for the above-referenced proper purpose. The expenses of such examination shall be borne by the examining Partner, except as specifically stated in the TBOC.

9.03 INFORMATION ABOUT UNIT HOLDERS. The Partnership shall not be required to provide the name, address or other identifying Personal or financial information about a Unit Holder, or any information about the

Partnership Interest of any Unit Holder, to any Person who is not a Unit Holder except as necessary to discharge any withholding responsibilities or as otherwise required by applicable law, including under the Foreign Account Tax Compliance Act. Notwithstanding the foregoing, the Managing General Partner shall have absolute discretion in determining whether the disclosure of such information is necessary or required by law.

9.04 TAX RETURNS. The Managing General Partner shall cause the preparation and timely filing of all tax returns required to be filed by the Partnership pursuant to the Code and all other tax returns deemed necessary or required in each jurisdiction in which the Partnership does business. Copies of such returns or pertinent information therefrom shall be furnished to the Unit Holders within a reasonable time after the end of the Partnership's fiscal year. Each Unit Holder agrees that it will not file any tax return inconsistent with allocations or items of income, gain, loss, deduction, or credit reflected on any tax return or other tax related filing made by the Partnership. The Managing General Partner shall prepare, or cause to be prepared, and shall mail to each Unit Holder, within 90 days following the close of each fiscal year or as soon as practical thereafter, a Schedule K-1 setting forth in sufficient detail such transactions effected by the Partnership during such fiscal year as shall enable each Unit Holder to prepare its U.S. Federal income tax return.

9.05 FINANCIAL STATEMENTS. The Managing General Partner may, but shall not be required to, obtain an audit from time to time, at the expense of the Partnership, of the books of account and records of the Partnership by a firm of independent certified public accountants selected by the Managing General Partner. The Managing General Partner may prepare, or cause to be prepared, in a manner consistent with the accounting method used to prepare the Partnership tax return, and shall mail to each Unit Holder, as soon as practical after the end of each fiscal year, financial statements setting forth:

(a) a balance sheet of the Partnership as of the end of such fiscal year; and

(b) statements of income for such fiscal year.

In addition, every year, the Managing General Partner shall obtain an engineering report on the reserves underlying the Leases owned by the Partnership as of the calendar year end. The Managing General Partner shall mail to each Unit Holder, as soon as practical after receipt, a copy of any audit.

9.06 TAX AUDIT. The Partnership may, if it is eligible and at the discretion of the Partnership Representative, elect to opt out of the partnership tax audit regime implemented under Internal Revenue Code Section 6221 (the "Partnership Audit Rules"). The Partnership Representative shall notify all Unit Holders of any Proceedings commenced by the Internal Revenue Service, and thereafter shall furnish all Unit Holders periodic reports at least quarterly on the status of such Proceedings. The Partnership Representative is authorized and required to represent the Partnership in connection with all examinations of the Partnership by any taxing authority having jurisdiction over the Partnership, and to take such action, including settlement or litigation of such Proceedings, as it, in its sole discretion, deems to be in the best interest of the Partnership. Each Unit Holder agrees to cooperate with the Partnership Representative and to do or refrain from doing any and all things reasonably requested by the Partnership Representative with respect to any such examination or any resulting filing or Proceeding. Specifically and not in limitation of the foregoing, each Unit Holder agrees to provide such information requested by the Partnership Representative and to otherwise cooperate as reasonably necessary for the Partnership Representative to (i) elect to opt out of the partnership tax audit regime, (ii) cause imputed underpayments assessed with respect to the Partnership to be paid by the Unit Holders in the reviewed year pursuant to Section 6226, (iii) file or cause the filing of amended tax returns, and (iv) establish payment and/ or filing by a Unit Holder of any applicable taxes, additions to taxes, penalties and interest arising from an interest in the Partnership. No Person other than the Partnership Representative shall have any right to (i) participate in any audit of any Partnership tax return; (ii) participate in any Proceedings arising out of or in connection with any Partnership audit or tax return, amended tax return or claim for a refund; or (iii) appeal or otherwise challenge any findings in any such Proceeding. The Partnership Representative shall have sole discretion to determine whether the Partnership will contest any proposed or assessed tax deficiencies or penalties on its own behalf or on behalf of the Unit Holders. Any tax payment deficiency and penalty shall be allocated to and paid by the Unit Holders (including former Unit Holders) who held Units in the year under review, in proportion to their respective Partnership Interests in the year under review, as determined by the Managing General Partner. The foregoing is included for clarification purposes and shall not serve to limit the powers of the Partnership Representative under the Code. Any tax overpayment shall be allocated to the Unit Holders who hold Units in the year in which the tax overpayment is finally determined by the Internal Revenue Service or other taxing authority, in proportion to their respective Partnership Interests. Each Unit Holder (including former Unit Holders) shall pay its proportionate share of any tax payment deficiency or penalty finally determined by the Internal Revenue Service or other taxing authority within 30 days after demand by the Partnership Representative.

9.07 Notwithstanding the foregoing, the Partnership Representative shall have the right (i) to pay the share of any tax payment deficiency or penalty on behalf of such Unit Holder (or former Unit Holder) and treat such amount as a distribution to such Unit Holder (or former Unit Holder) or (ii) to reduce the amount of any distributions which would otherwise have been made to such Unit Holder pursuant to Article VIII, including by reducing the proceeds of liquidation otherwise payable to such Unit Holder pursuant to Article XI, and to treat such amount as being distributed to the Unit Holder.

Any taxes, penalties, and interest payable under the Partnership Audit Rules by the Partnership shall be treated as attributable to the Unit Holders of the Partnership. Each Unit Holder hereby agrees to indemnify and hold harmless the Partnership and the other Unit Holders (including former Unit Holders) from and against any liability for taxes allocated to such Unit Holder.

The provisions of this Section 9.06 shall survive the termination of the Partnership or the termination of any Partner's Partnership Interest and shall remain binding on the Partners (or former Partners) for a period of time necessary to resolve with the IRS or the United States Department of the Treasury any and all matters regarding the United States federal income taxation of the Partnership.

ARTICLE X
TRANSFER OF INTERESTS

10.01 GENERAL. This Article X shall not apply to initial admission of Partners pursuant to Article III of this Agreement and Section 10.04 shall not apply to transfers of Partnership Interests between existing Partners of the Partnership. A Partnership Interest, and any interest in a Partnership Interest, may not be Transferred, voluntarily or involuntarily (including by operation of law or otherwise), except in accordance with the provisions of this Article X. A Unit Holder shall obtain the prior written consent of the Managing General Partner for any Transfer subject to this Article X other than a Transfer by operation of law. Any attempt to Transfer any interest in a Partnership Interest in violation of this Agreement or any applicable state or federal law shall be void and of no effect, except that any Transfer by operation of law shall result in the transferee having the rights of an assignee who has not been admitted as a Partner, as to allocations and distributions, but not the rights of a Partner under this Agreement unless admitted as a Partner by the Managing General Partner. The transferee shall provide to the Managing General Partner its taxpayer identification number, passport and related information of any natural Person transferee or control Person of any transferee, and any other information reasonably necessary to permit the Partnership to file required tax returns or comply with anti-money laundering laws. A Unit Holder that is an entity may change its name, or merge or consolidate with an affiliate, without the prior consent of the Managing General Partner, and such action shall not be considered a Transfer subject to this Article X. A Unit Holder may transfer all or part of its Partnership Interest to a trust or other entity established for the benefit of the Unit Holder and/ or members of such owner's immediate family without the prior consent of any Managing General Partner or any Partner, and such action shall not be considered a Transfer subject to this Article X.

10.02 PARTNERSHIP INTERESTS ARE RESTRICTED SECURITIES. Partnership Interests have not been registered under the Federal Securities Act of 1933 or under the securities laws of any state or other jurisdiction and may not be offered or Transferred unless and until registered under such act and laws or, in the opinion of counsel in form and substance satisfactory to the Partnership, such offer or Transfer is in compliance therewith.

10.03 RIGHT OF FIRST REFUSAL. Other than a Class B Unit Holder, any Unit Holder or Unit Holder's legal representative desiring to Transfer all or part of its Partnership Interest to a Person or entity other than one of the Partners, for any reason other than a Transfer by operation of law, shall first notify the Managing General Partner in writing of its intention to Transfer, stating the name and address of the proposed transferee, the amount of Partnership Interest proposed to be Transferred, the consideration proposed to be received therefore, and the proposed terms of the Transfer. The Managing General Partner in its sole discretion shall have the exclusive right and privilege to cause the Partnership to purchase the Partnership Interest proposed to be Transferred for the proposed consideration within thirty (30) days after the receipt of such written notice. If the Managing General Partner does not cause the Partnership to purchase the Partnership Interest so offered, during the next succeeding 90-day period the Unit Holder or Unit Holder's legal representative desiring to Transfer the Partnership Interest may then Transfer such Partnership Interest to the Person and at the price and terms stated in the offer. If the Partnership Interest is not so Transferred, it shall not be subsequently Transferred without first again offering it to the Managing General Partner as provided above. This Section 10.03 shall not be construed as limiting in any way the authority and discretion of the Managing General Partner either to give or withhold its consent to any proposed Transfer of Partnership Interests, or to the admission of the transferee as a Partner even though the Managing General Partner shall not have exercised the right and privilege to purchase such Partnership Interest.

10.04 CONSENT REQUIRED FOR SUBSTITUTION OF NEW PARTNER. Subject to Sections 10.01, 10.02 and 10.03, a transferee of any Partnership Interest may become a Partner only upon (a) execution and delivery by the transferee of a written acceptance and adoption of this Agreement, as the same may be amended, together with such other documents, if any, as the Managing General Partner may require; (b) the payment to the Partnership by the Unit Holder Transferring its Partnership Interest of all reasonable expenses incurred by the Partnership in connection with such Transfer; and (c) upon the consent of the Managing General Partner, which may, in each case, be given or denied in the sole discretion of the Managing General Partner. Upon such execution, payment and consent, the transferee shall, with respect to the Partnership Interest assigned, be admitted to the Partnership, and become a substituted Partner therein. A transferee who is not admitted as a Partner shall be entitled to allocations and distributions in respect to the Partnership Interest transferred but shall not have any rights reserved to Partners under this Agreement.

ARTICLE XI
DISSOLUTION AND TERMINATION

11.01 DISSOLUTION. The Partnership shall only be dissolved upon the earlier of:

(a) the Managing General Partner determines that the Partnership should be dissolved;

(b) the Managing General Partner is removed in accordance with the terms of this Agreement and is not replaced in accordance with the terms of this Agreement;

(c) the Partnership becoming insolvent or bankrupt, which insolvency or bankruptcy cannot be remedied as determined by the Managing General Partner;

(d) the sale or other disposition of all or substantially all of the Partnership's assets outside the ordinary course of business; or

(e) any other event that, under the TBOC, would be an event requiring winding up, provided, however, that the Partnership shall not be required to be wound up or dissolved upon the request for a winding up of the Partnership from any Partner or Unit Holder.

The merger, consolidation, recapitalization, or reorganization of the Managing General Partner shall not be deemed an event requiring winding up or dissolution of the Partnership. An Event of Withdrawal regarding a General Partner or the withdrawal of any General Partner, other than the Managing General Partner, or the conversion of any General Partner interest into a Limited Partner interest shall not be deemed an event requiring winding up or dissolution of the Partnership.

Upon the occurrence of any event set forth in Section 11.01(b) of this Agreement, the Managing General Partner or any other Partner shall deliver written notice thereof to all Unit Holders and the Partnership shall be deemed to be reconstituted if there remains at least one Partner willing to serve as Managing General Partner and, in such capacity, to be a general partner who shall serve as Managing General Partner, and, if there is more than one Partner willing to serve as Managing General Partner, the affirmative vote or written consent of Partners owning fifty-one percent (51%) or more of outstanding Units of each specific class having Units outstanding (voting as separate classes) shall determine which Partner shall serve as Managing General Partner, in which case the business of the Partnership shall be carried on by the remaining Partners. If no Partner willing to serve as Managing General Partner remains, the Partnership shall dissolve and thereafter shall conduct only activities necessary to wind up its affairs.

Upon the occurrence of any event set forth in Section 11.01(e) of this Agreement, the Managing General Partner shall deliver written notice thereof to all Unit Holders and the Partnership shall be deemed to be reconstituted if, within 90 days after such event, all of the remaining Partners (A) elect in writing to continue the business of the Partnership and, (B) agree to the appointment, effective as of the date of such event of dissolution, of one or more new Managing General Partners. If no election to continue the Partnership is made by all remaining Partners within 90 days of the event of dissolution, the Partnership shall dissolve and thereafter shall conduct only activities necessary to wind up its affairs.

If the Partnership is reconstituted, then:

(i) the Partnership shall continue until thereafter dissolved in accordance with this Article XI;

(ii) the interest of the former Managing General Partner shall be treated thenceforth as the interest of a Limited Partner; and

(iii) all necessary steps shall be taken to amend or restate this Agreement and the certificate of limited partnership, and the successor Managing General Partner may for this purpose exercise the power of attorney granted pursuant to Article XII of this Agreement.

11.02 EFFECT OF DISSOLUTION. Upon dissolution, the Partnership shall cease to carry on its business, except as permitted by the TBOC or this Agreement. Upon dissolution, the Managing General Partner or liquidator shall make such filings and publish any notice required by the TBOC.

11.03 DISTRIBUTION UPON DISSOLUTION. In the event of dissolution as provided in Section 11.01 above, the assets of the Partnership shall be paid and distributed in the following order:

(a) All of the Partnership's debts and liabilities to Persons other than Unit Holders, but excluding secured creditors whose obligations will be assumed or otherwise transferred upon the liquidation of Partnership assets, shall be paid and discharged and any reserve deemed necessary by the Managing General Partner or liquidator for the payment of such debts shall be set aside;

(b) All of the Partnership's debts and liabilities to Unit Holders, excluding any accrued and unpaid portion of any Contribution Margin, shall then be paid and discharged; and

(c) The balance of the assets of the Partnership shall then be distributed to the Unit Holders in the following order:

(i) first, to the Managing General Partner in an amount equal to any accrued and unpaid portion of any Contribution Margin;

(ii) second, to the Unit Holders, pro rata, in proportion, and to the extent of their remaining positive Capital Account balances; provided, however, that the Unit Holders' Capital Accounts first shall be adjusted to reflect the manner in which any unrealized income, gain, loss and deduction inherent in the Partnership Properties (including oil and gas properties), which has not previously been reflected in the Unit Holders' Capital Accounts, would be allocated among the Unit Holders if there had been a taxable disposition of the Partnership's assets at fair market value on the date of distribution; and

(iii) third, to the Unit Holders in accordance with the provisions of Section 8.01(c).

Upon dissolution, each Unit Holder shall look solely to the assets of the Partnership for the return of its Capital Contributions and shall be entitled only to a cash distribution or a distribution in kind of the Partnership's assets made in accordance with Section 11.04 hereof.

11.04 DISTRIBUTION IN KIND. If the Managing General Partner (or other Person acting as liquidator) determines that a portion of the Partnership's assets should be distributed in kind to the Unit Holders in connection with a liquidation of the Partnership, an independent appraisal of the fair market value of each such asset as of a date reasonably close to the date of liquidation shall be obtained. Any unrealized appreciation or depreciation with respect to any asset to be distributed in kind shall be allocated among the Unit Holders (in accordance with the provisions of Article VIII, and assuming that the assets were sold for the appraised value) and taken into consideration in determining the balance in the Unit Holders' Capital Accounts as of the date of final liquidation. Distribution of any such asset in kind to a Unit Holder shall be considered a distribution of an amount equal to the asset's fair market value for purposes of Section 11.03. The Managing General Partner (or other Person acting as liquidator) may establish a liquidating trust for the benefit of the Unit Holders and transfer assets to such trust.

11.05 LIQUIDATOR. Any Person acting as liquidator shall be protected from liability and entitled to indemnification to the same extent as the Managing General Partner.

11.06 TERMINATION. Upon the completion of the distribution of Partnership assets as provided in this Article XI, the existence of the Partnership shall be terminated.

11.07 CERTIFICATE OF TERMINATION. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefore and all of the remaining property and assets have been distributed to the Unit Holders, a certificate evidencing such termination may be executed and filed with the Secretary of State of Texas in accordance with the TBOC.

11.08 RETURN OF CONTRIBUTION NONRECOURSE TO OTHER UNIT HOLDERS. Except as provided by law or as expressly provided in this Agreement, upon dissolution, each Unit Holder shall look solely to the assets of the Partnership for the return of the Unit Holder's Capital Account. If the Partnership property remaining after the payment or discharge of the debts and liabilities of the Partnership is insufficient to return the Capital Account of one or more Unit Holders, including, without limitation, all or any part of that Capital Account attributable to Capital Contributions, then such Unit Holder shall have no recourse against any other Unit Holder except as otherwise expressly provided in this Section 11.08. Notwithstanding anything to the contrary contained in this Agreement, and notwithstanding any custom or rule of law to the contrary, no Limited Partner shall be obligated to restore a deficit balance in its Capital Account at any time, except to the extent of the amount of a required payment under Section 8.09 or Section 9.06. Notwithstanding the previous sentence, in the event of the liquidation of the Managing General Partner's (or other General Partner's) interest in the partnership, the Managing General Partner (or other General Partner) shall contribute to the Partnership an amount of cash equal to (but in no event will it be obligated to contribute more than) the negative balance (if any) in such Partner's Capital Account. Any amount contributed by the Managing General Partner (or other General Partner) shall be paid to the creditors of the Partnership or distributed to the other Partners, in either case as provided in Section 11.03. Any Capital Contribution required hereunder shall be made on or before the later of (a) the end of the taxable year of the Partnership in which such Partner's Unit is liquidated, or (b) the ninetieth day following the date of such liquidation. Notwithstanding any of the foregoing to the contrary, to the extent required by applicable law, a Partner receiving a distribution in part or full return of his Capital Contribution shall be liable to the Partnership for any sum, not in excess of such amount returned plus interest, necessary to discharge the liabilities of the Partnership to creditors who extended credit or whose claims arose before such distribution.

ARTICLE XII
POWER OF ATTORNEY

12.01 Each Unit Holder hereby irrevocably makes, constitutes, and appoints the Managing General Partner as its true and lawful attorney to make, sign, execute, acknowledge, swear to, and file with respect to the Partnership:

(a) all documents of transfer of a Unit Holder's interest and all other instruments to effect such transfer, but only if in compliance with all applicable provisions of this Agreement;

(b) all certificates of limited partnership as are required by law and all amendments to this Agreement and to the Partnership's certificates of limited partnership regarding a change in the name of the Partnership, its registered office or registered agent, or the address of the Managing General Partner, or the admission or withdrawal of a Unit Holder;

(c) all amendments adopted in compliance with all applicable provisions of this Agreement;

(d) all documents (including counterparts of this Agreement) which the Managing General Partner deems appropriate to qualify or continue the Partnership as a limited partnership in the jurisdictions in which the Partnership may conduct business; and

(e) all conveyances and other documents, instruments, and certificates which the Managing General Partner deems appropriate to effect the certification, dissolution, liquidation, or termination of the Partnership.

The foregoing grant of authority is hereby declared to be irrevocable, and a power coupled with an interest, which shall survive the death and disability of any Unit Holder. In the event of any conflict between the provisions of this Agreement and any document executed or filed by the Managing General Partner pursuant to the power of attorney granted in this Section, this Agreement shall govern.

ARTICLE XIII
GENERAL PROVISIONS

13.01 GOVERNING LAW. This Agreement, and the application or interpretation hereof, shall be governed by its terms, by the TBOC and by the laws of the state of Texas without reference to the laws of any other jurisdiction. The Partnership hereby elects, pursuant to the Texas Business and Commerce Code ("BCC") Section 8-103(c), that each Partnership Interest in the Partnership shall constitute a security governed by BCC Article 8.

13.02 EXECUTION OF ADDITIONAL INSTRUMENTS. Each Unit Holder hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

13.03 CONSTRUCTION. Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural and vice versa, and each gender shall include all other genders.

13.04 HEADINGS. The headings in this Agreement are inserted for convenience only and are in no way intended to describe, interpret, define, or limit the scope, extent or intent of this Agreement or any provision hereof.

13.05 WAIVERS. No waiver of any violation of the provisions of this Agreement shall constitute a waiver of any further or other violation. No failure to enforce a right or remedy shall constitute a waiver of that or any other right or remedy.

13.06 Rights AND REMEDIES CUMULATIVE. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive the right to use that right or remedy again or to use any or all other rights or remedies. Such rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

13.07 EXHIBITS. All exhibits referred to in this Agreement and attached hereto are incorporated herein by this reference.

13.08 HEIRS, SUCCESSORS AND ASSIGNS. Each and all of the covenants, terms, provisions, and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

13.09 CREDITORS. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of the Partnership or by any Person not a party hereto.

13.10 EXECUTION AND COUNTERPARTS. An electronic signature or an electronic copy of a manual signature to this Agreement or any other notice or document regarding the Partnership shall be given legal effect and deemed valid and binding on the Person authorizing or transmitting such signature and any Person to whom the signature is attributable, whether or not such signature is encrypted or otherwise verified. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

13.11 FEDERAL INCOME TAX ELECTIONS. All elections required or permitted to be made by the Partnership under the Code, any state tax laws or any other relevant tax laws shall be made by the Partnership Representative in its sole discretion. The provisions on limitations of liability of the Managing General Partner and indemnification set forth in Article V hereof shall be fully applicable to the Partnership Representative in its capacity as such.

13.12 NOTICE. Each Unit Holder agrees that the Partnership may transmit information about or from the Partnership, disclosures and notices electronically on an unencrypted basis (i) via email to the email address designated by the Unit Holder in its initial subscription or subsequently designated by the Unit Holder by a written notice made in accordance with the following sentence, (ii) by access to a web site that the Partnership designates in an email notice the Partnership sends to a Unit Holder at the time the information is available, or (iii) to the extent permissible by law, by access to a web site that the Partnership designates in advance for such purpose. In addition, any notice or document sent to or by the Partnership or any Managing General Partner or Unit Holder may be sent by hand delivery or by facsimile providing confirmation of receipt or by Federal Express or similar courier delivery or by U. S. Postal Service certified mail, return receipt requested, to the party entitled to receive such notice or other document at the address provided herein for the Partnership for any notice to the Partnership or any Managing General Partner and at the address provided to the Partnership by any Unit Holder in its initial subscription agreement for any notice to any Unit Holder, or any such other address as such Person may request in a written notice made in compliance herewith. Such notice or document will be deemed received on the earlier of the date actually received, if provided by email, through a web site, sent by hand delivery, confirmed facsimile or courier delivery, or three business days after it is deposited in the U.S. mail properly addressed and sent by certified mail, return receipt requested. Notice provided in accordance with this Section shall be effective notwithstanding anything in the TBOC to the contrary. A Unit Holder may withdraw its consent to receipt of information, disclosures, or notices via unencrypted email by notice to the Managing General Partner sent in accordance with the second sentence of this Section.

13.13 INVALIDITY. The invalidity or inability to enforce any particular provision of this Agreement shall not affect the other provisions hereof, and the Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted. If any particular provision herein is construed to be in conflict with the provisions of the TBOC, the provisions of this Agreement shall control to the fullest extent permitted by applicable law.

13.14 AMENDMENTS TO THE AGREEMENT. The Managing General Partner is specifically authorized to make amendments to this Agreement if necessary or appropriate in the Managing General Partner's sole discretion (i) to comply with the Internal Revenue Code or to carry out the intent of the allocation or distribution provisions in this Agreement, or (ii) in relation to an action taken by the Managing General Partner within the scope of the Managing General Partner's right or authority under this Agreement. In particular and without limitation, the Managing General Partner may update Exhibit A to this Agreement at any time to reflect the proper names, addresses, units held and Capital Contributions of the Partners. In the event that the Partnership sells less than 500 Class A Units pursuant to the offering (the "Offering") as set forth in that certain Offering Memorandum dated as of October29, 2024, the Managing General Partner may reduce the amount of the distribution of the Class A Unit Holders and increase the amount of the distribution of the Class B Unit Holders based on the pro rata number of Class A Units that were issued by the Partnership by the 500 Class A Units included in the Offering. In the event that the Partnership sells more than 500 Class A Units, then the Managing General Partner may increase the amount of the distribution to Class A Unit Holders and decrease the amount of distribution to Class B Unit Holders based on the pro rata number of Class A Units that were issued by the Partnership by the 500 Class A Units included in the Offering. This Agreement may be amended in all other instances only by the affirmative vote or written consent of Partners owning fifty-one percent (51%) or more of outstanding Units of each specific class having Units outstanding (voting as separate classes), except that any amendment to this Section 13.14 shall require the unanimous affirmative vote of all Partners. The Managing General Partner may modify or waive any provision of Section 153.004 of the TBOC that is permitted to be modified or waived. This Section 13.14 will not limit the ability of the Managing General Partner to enter into side letters or similar agreements in accordance with Section 13.16 and amend this Agreement accordingly.

13.15 ARBITRATION DISCLOSURE.

This agreement contains predispute arbitration clauses. By signing an arbitration agreement, the parties agree as follows:

(a) Arbitration is final and binding on the parties. All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.

(b) The parties waive their right to seek remedies in court, including the right to a jury trial. Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.

(c) Pre-arbitration discovery is generally more limited than and different from court Proceedings. The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court Proceedings.

(d) The arbitrators' award is not required to include factual findings or legal reasoning and any party's right to appeal or seek modification of rulings of the arbitrators is strictly limited. The arbitrators do not have to explain the reason(s) for their award.

(e) The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.

(f) The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this agreement.

ARBITRATION CLAUSE – King Operating Partners III LP and its Managing General Partner and Affiliates If a dispute, controversy or claim, of any kind and every kind or type, whether based on contract, tort, statute, regulations, or otherwise, arising out of, or connected with, or relating in any way to this Agreement, or the relationship of the parties, or the obligations of the parties, or the operations carried out under this Agreement, including without limitation, any dispute as to the existence, validity, construction, interpretation, negotiation, performance, non-performance, breach, termination, or enforceability of this Agreement, the breach thereof (any one of which constituting the “Dispute”) or claims against involving the Partnership, its Managing General Partner, KOP III GP LLC, and the officers, employees, contractors, consultants and Affiliates of the Managing General Partner, including, but not limited to King Operating Corporation and James R. Young, and if the Dispute cannot be settled through direct discussions (in the opinion of any party), the parties agree to first endeavor to settle the Dispute in an amicable manner by mediation using an agreed-upon third-party attorney mediator, before resorting to arbitration. If the Dispute is not settled by mediation, then and thereafter any unresolved Dispute, including the arbitrability of any unresolved Dispute, shall be resolved by final and binding arbitration administered by and pursuant to the rules of the American Arbitration Association (“AAA”) in accordance with then current Commercial Arbitration Rules with the award being final and binding. Any controversy concerning whether a Dispute is arbitrable shall be determined by the arbitrator(s) and not by any court. Judgment upon the award rendered by the arbitrator(s) may be entered in any state or federal court having jurisdiction thereof. Any provisional remedy which would be available from a court of law shall be available from the arbitrator(s) to the parties to this Agreement pending arbitration. No party shall be entitled to join or consolidate claims in arbitration by or against other investors or arbitrate any claim as a representative or member of a class or in a private attorney general capacity.

During the arbitration, civil discovery shall be permitted for the production of documents and taking of depositions. The arbitrator(s) shall be guided but not controlled by the Texas Rules of Civil Procedure in allowing discovery and all issues regarding compliance with discovery requests shall be decided by the arbitrator(s). The arbitrator(s) may impose sanctions and take other actions with regard to the parties that the arbitrator(s) deem appropriate to the same extent that a judge could pursuant to the Texas Rules of Civil Procedure. The Federal Arbitration Act shall govern all arbitration Proceedings under this Agreement. This Agreement shall in all other respects be governed and interpreted by the laws of the State of Texas, including its statutes of limitation but excluding any conflicts or choice of law rule or principles that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The arbitration shall be conducted in Dallas County, Texas as the exclusive venue, by one neutral arbitrator chosen by AAA according to its Commercial Arbitration Rules if the amount of the claim, exclusive of interest and costs, is one million dollars ($1,000,000) or less or by three neutral arbitrators chosen by AAA in the same manner as the one neutral arbitrator if the amount of the claim, exclusive of interest and costs, is more than one million dollars ($1,000,000). Neither party nor the arbitrator(s) may disclose the existence, content, evidence presented during, or results of any arbitration hereunder without the prior written consent of all parties. The parties voluntarily and knowingly waive any right they have to a jury trial.

All evidence submitted in an arbitration proceeding, transcripts of such proceedings, and all documents submitted by the Parties in an arbitration proceeding, shall be kept confidential by the arbitration panel and the Parties.

The arbitrator(s) has no authority to award punitive or exemplary damages. The arbitrator(s)' award must be rendered within 60 days following the conclusion of the hearing or submission of evidence. The award of the arbitrator(s) shall be in writing.

All fees and expenses of the arbitration shall be borne by the parties equally who shall make deposits as requested by AAA of each party's share of the deposits requested. Failure or refusal by a party to pay its share of the requested deposits shall constitute a waiver by the non- paying party of its rights to be heard, present evidence, cross-examine witnesses, and assert counterclaims in the arbitration. Informing the arbitrator(s) of a party's failure to pay its share of the requested deposits for the purpose of implementing this waiver provision shall not be deemed to affect the arbitrator's impartiality, neutrality, independence, or ability to proceed with the arbitration. Absent a contrary finding by the arbitrator(s), each party shall bear the expense of its own counsel and attorney's fees, experts, witnesses, and preparation and presentation of proofs. This agreement to arbitrate shall survive the termination or repudiation of this Agreement.

13.16 ENTIRE AGREEMENT. This Agreement and the other agreements referred to herein, including the Investor Partners' side letters or similar agreements entered into pursuant to this Section 13.16, constitute the entire agreement between the parties hereto pertaining to the subject matter hereof and fully supersedes any and all prior or contemporaneous agreements or understandings between the parties hereto pertaining to the subject matter hereof. Notwithstanding the provisions of this Agreement, it is hereby acknowledged and agreed that the Managing General Partner on its own behalf or on behalf of the Partnership without the approval of any Investor Partner or any other Person may enter into a side letter or similar agreement to or with an Investor Partner which has the effect of establishing rights under, or altering or supplementing the terms of, this Agreement. The parties hereto agree that any terms contained in any such side letter or similar agreement to or with an Investor Partner will govern with respect to such Investor Partner notwithstanding the provisions of this Agreement.

13.17 DETERMINATION OF MATTERS NOT PROVIDED FOR IN THIS AGREEMENT. The Managing General Partner shall decide any and all questions arising with respect to the Partnership and this Agreement that are not specifically or expressly provided for in this Agreement.

ARTICLE XIV
CORPORATE TRANSPARENCY ACT

14.01 The CTA, and the rules and regulations promulgated thereunder, require reporting companies report certain beneficial ownership information to the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") unless an exemption applies.

14.02 By their execution and delivery of this Agreement, each Partner represents and warrants to the Company and acknowledges that:

(a) If such Partner is a natural person, such Partner has provided, or will provide upon request of the CTA Compliance Person, to the Partnership either such Partner's true and correct CTA Information or the true and correct FinCEN identifier assigned to such Partner by FinCEN.

(b) If such Partner is not a natural person (each, an "Entity Partner") such Entity Partner has, with respect to each of its indirect owners, provided (or will provide upon request of the CTA Compliance Person) to the Partnership either (z) such indirect owner's true and correct CTA Information or (y) the true and correct FinCEN identifier assigned to such indirect owner by FinCEN, or the true and correct FinCEN identifier assigned to such Entity Partner by FinCEN.

14.03 Each Partner shall promptly, but within not more than five (5) business days, notify the CTA Compliance Person in writing of any change or inaccuracy in or to:

(a) such Partner's or, in the case of an Entity Partner, any of such Entity Partner's indirect owners' CTA Information. Notwithstanding the foregoing, the requirements of this Section 24.03 shall not apply with respect to any Partner or indirect owner as to whom a FinCEN Identifier assigned to such Person by FinCEN has been provided to the Partnership; or

(b) the true and correct CTA Information or FinCEN Identifier of any natural Person who becomes an indirect owner of such Entity Partner.

14.04 Each Partner hereby agrees to indemnify and hold harmless the Partnership and the other Partners from and against any losses, claims, damages, judgments, penalties, fines, costs, or liabilities of whatever kind arising from or relating to any inaccuracy in or breach of any of such Partner's representations or warranties contained in this Article 14; any failure of such Partner to comply with such Partner's obligations under this Article 14; or any provision by such Partner of false or incomplete CTA Information. The obligations of a Member pursuant to this Article 14 shall survive the termination, dissolution, liquidation, and winding up of the Company.

14.05 Each Partner acknowledges and consents to the disclosure to FinCEN by the Partnership of CTA Information provided by such Partner to the Partnership to the extent that the CTA Compliance Person determines, in its sole discretion, that such disclosure is necessary in connection with reporting the Partnership's beneficial ownership information to FinCEN under the CTA.

This Agreement was adopted effective as of (although not necessarily signed on) October 5, 2022.

MANAGING GENERAL PARTNER:

Address:

15301 Dallas Parkway, Suite 900
Addison, Texas 75001

KOP III GP LLC

By:______________________________
James R. Young, Managing Member

CLASS B PARTNER

Effective as of October 5, 2022:

KING KOP III B LLC

By:______________________________
James R. Young, Managing Member

EXHIBIT A

Unit Holders Effective as of October 5, 2022

Name and Address	Class of Units Held	Number of Units Held	Initial Capital Contribution
MANAGING GENERAL PARTNER:			
KOP III GP LLC 15301 Dallas Parkway Suite 900 Addison, Texas 75001	N/A	1	$0 and Services
CLASS B UNIT HOLDERS:			
KING KOP III B LLC 15301 Dallas Parkway Suite 900 Addison, Texas 75001	Class B	1	$0 and Services
CLASS A UNIT HOLDERS:			
Additional Investors	Class A		

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Exhibit C

Management and Maintenance Agreement

King Operating Partners III, LP

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MANAGEMENT AND MAINTENANCE AGREEMENT

This Management and Maintenance Agreement (this "Agreement"), dated effective as of October 29, 2024 (the "Effective Date"), is made and entered into by and among King Operating Corporation, a Texas corporation ("Manager") and King Operating Partners II LP, a Texas limited partnership (the "Partnership"), together with Manager, each a "Party" and collectively, the "Parties").

WHEREAS, the Partnership is the owner of certain oil and gas properties, and Manager is an experienced operator of oil and gas properties and related production facilities;

WHEREAS, the Partnership desires to engage Manager to manage such oil and gas assets and to perform the Management Services (as hereinafter defined), and Manager desires to accept such arrangement.

NOW, THEREFORE, for and in consideration of the mutual premises herein set forth, the Parties agree to the following:

1. Management Services to be Performed.

(a) Effective as of the Effective Date, Manager hereby agrees to perform all of the following management services (the "Management Services"):

i. All duties related to and necessary for permitting, drilling, testing, and completing any Wells and performing all duties related to operating and maintaining the Wells;

ii. All duties related to and necessary for equipping, operating and maintaining the Wells, including, without limitation, maintaining the Partnership's compliance with all terms of (i) all Contracts between the Partnership and any other Person contracted to operate and maintain the Wells, including, without limitation, any Operating Agreements, and (ii) all Contracts that allow for or are related to the exploration and development of the Wells; provided however that Manager shall not be responsible for any payment or financial obligations under such agreements set forth in (i) and (ii);

iii. Negotiate the sales of all Hydrocarbons produced from the Wells and distributing the revenue of such Hydrocarbons;

iv. Prepare joint interest billing statements and delivering such statements for all operations and maintenance of the Wells;

v. Calculate and pay any royalties, production payments or other burdens on the Operating Assets on behalf of the Partnership (including, but not limited to the carried working interest and overriding royalty interest held by Manager or any other prior owners of the Wells and Subject Leases);

vi. Take bids and negotiating contracts with Persons providing services for the operation and maintenance of the Wells;

vii. Prepare all drilling, completion, stimulation, and equipping procedure prognoses, budgets (in the form of Authorization for Expenditure commonly referred to as AFEs) required for any operations related to the Wells and Subject Leases;

viii. Provide monthly reports to the Partnership detailing expenses incurred in the performance of the Management Services, the Hydrocarbons produced and sold in the preceding month, and such other information as the Partnership may reasonably request;

ix. Develop drilling and development plans (as described in vii above) for oil and gas leases held by the Partnership;

x. Evaluate potential acquisitions for the Partnership; provided however that Manager may determine that third party studies need to be undertaken, and Manager will not be obligated to incur additional costs for engineering and geological assessments outside of its own employees;

xi. Assist in routine land management tasks, such as filing assignments and preparing or evaluating division orders; provided however that Manager may determine that third party vendors may be necessary for the timely completion of certain land management tasks, and Manager will not be obligated to incur additional costs for land management outside of its own employees; and

xii. All activities related to the solicitation, negotiation, placement, and issuance of debt by the Partnership.

(b) The Partnership hereby acknowledges that Manager may be the operator under one or more Operating Agreements and therefore may have duties to the Partnership under such Operating Agreements. To the extent that Manager has an obligation under an Operating Agreement to the Partnership and a similar obligation to the Partnership under this Agreement, the terms of the Operating Agreement shall control; provided, however, the Partnership's obligation to pay the Price under Section 3 shall not conflict with the terms of the applicable Operating Agreement.

(c) To the extent there is not an Operating Agreement for one or more of the Wells, then Manager shall be considered the record operator for such Wells with respect to all Governmental Authorities.

(d) At Manager's sole discretion, Manager may engage third parties to assist Manager in performing the Management Services in the event that Manager's management determines that the Management Services require additional staffing outside of Manager's employees to either (i) timely complete the Management Services to best serve the business interests of the Partnership, (ii) comply with the Partnership's contractual or legal obligations, or (iii) meet requirements of each of the Partnership's respective debt or equity providers. In such instances, Manager may engage third party contractors to assist Manager in completing such tasks, and the Partnership shall be responsible for such costs, expenses and fees.

2. Oil Field Development Costs

(a) Price. The Manager shall charge the Partnership a price equal to the actual cost plus twenty percent (20%) for all oil field development costs. These costs include, but are not limited to, drilling, testing, completion, stimulation, and equipping of proposed Wells.

(b) Binding Prepayment Obligation. The Partnership agrees to prepay all costs associated with the acquisition of Leasehold Assets (Oil and Gas Mineral Interests) and the development of Wells, including but not limited to drilling, testing, completing, stimulating, and equipping Wells (collectively, the "Prepaid Costs"). Such prepayment is a binding payment obligation and not a refundable deposit. Once paid, these funds are irrevocably committed to the development of the Wells and cannot be refunded to the Partnership under any circumstances, including the postponement or delay of drilling operations.

(c) Prepaid Costs Payment Schedule. The Manager is continually engaged in the development of Wells on behalf of the Partnership and will allocate resources and services to ensure the timely completion of all proposed Wells. The Manager will determine the Prepaid Costs required for each phase of development on a semi-monthly basis, considering the actual expenditures incurred and projected costs for ongoing development. The Manager shall calculate the Prepaid Costs due from the Partnership in accordance with normal accounting procedures and practices. These prepayments shall be made on the fifteenth (15th) and last day of each month, as applicable, and are non-refundable under any circumstances, even if development operations are delayed or postponed.

(d) Business Purpose for Prepayment. The parties acknowledge that the primary purpose of the prepayment is to provide the Manager with working capital to initiate and manage drilling operations and other associated activities. Additionally, the prepayment structure enables the Partnership to leverage the Manager's creditworthiness, as the Manager oversees multiple projects and has the ability to make strategic investments into other ventures by negotiating and prepaying larger amounts. This broader financial capability provides stability and flexibility in managing costs across multiple projects, which benefits the Partnership by ensuring that operations are well-capitalized and efficiently executed. The prepayment arrangement is made to ensure the timely commencement and completion of the drilling operations, while providing financial and operational advantages that come from the Manager's broader project management and investment activities.

(e) Commencement of Drilling Operations. The drilling activities shall commence within a reasonable period following prepayment. The parties agree that all prepayments made by the Partnership are intended to meet the economic performance requirements of Internal Revenue Code (IRC) Section 461(h). The Manager shall endeavor to I ensure that economic performance is deemed to occur within the tax year of prepayment and use all reasonable efforts to cause drilling operations to be completed prior to the 90th day following the close of the year in which the Prepaid Costs are incurred.

(f) Fair Market Value of Services. The parties represent and warrant that this Agreement is entered into on an arm's-length basis and that the terms of prepayment reflect the fair market value of the drilling and development services provided by the Manager. The fixed payment structure has been determined to represent fair compensation for the drilling services, ensuring that the prepayment is treated as a bona fide business expense.

(g) Compliance with Applicable Laws. The parties agree that this Agreement, including the Prepaid Costs, is intended to conform with all applicable IRS rulings and case law governing Intangible Drilling Costs ("IDC"). The prepayment arrangement is structured to qualify for current-year IDC deductions under applicable IRS guidelines, with the understanding that the prepayments are made to facilitate drilling operations and are not considered deposits or deferred payments.

3. Expenditures and Liability of the Partnership.

The Partnership grants to the Manager a lien upon any interest it now owns or hereafter acquires in the Operating Assets and a security interest and/ or purchase money security interest in any interests it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this Agreement including but not limited to payment of expenses, interest and fees, the proper disbursement of all monies paid hereunder and the assignment or relinquishment of interests in the Operating Assets as required hereunder. Such lien and security interest granted by the Partnership shall include the Partnership's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Operating Assets now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this Agreement, the Hydrocarbons when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all Wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from gas imbalances or from the sale of the Hydrocarbons at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing. To perfect the lien and security agreement provided herein, the Partnership shall execute and acknowledge the recording supplement and/ or any financing statement prepared and submitted by any Party hereto in conjunction herewith or at any time following execution hereof, and Manager is authorized to file this Agreement or the recording supplement executed herewith as a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform Commercial Code (the "Code") in the state in which the Operating Assets are situated and such other states as Manager shall deem appropriate to perfect the security interest granted hereunder. Any Party may file this Agreement, the recording supplement executed herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a financing statement with the proper officer under the Code. The Partnership represents and warrants to the other Parties hereto that the lien and security interest granted by the Partnership to the other Parties shall be a first and prior lien, and each Party hereby agrees to maintain the priority of said lien and security interest against all Persons acquiring an interest in the Operating Assets by, through or under the Partnership. When acquiring an interest in the Operating Assets, whether by assignment, merger, mortgage, operation of law, or otherwise, the Partnership shall be deemed to have taken subject to the lien and security interest granted by this Section as to all obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired. To the extent that Parties have a security interest under the Code of the state in which the Operating Assets are situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a Party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by the Partnership in the payment of its share of expenses, interests, fees or other financial obligations under this Agreement, or upon the improper use of funds by the Partnership, the other Parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of the defaulting Partnership's share of Hydrocarbons until the amount owed by the Partnership, plus interest, has been received, and shall have the right to offset the amount owed against the proceeds from the sale of the defaulting Partnership's share of Hydrocarbons. All purchasers of production may rely on a notification of default from the non-defaulting Party or Parties stating the amount due as a result of the default, and all Parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph. If the Partnership does not perform all of its obligations hereunder, and the failure to perform subjects it to foreclosure or execution proceedings pursuant to the provisions of this Agreement, to the extent allowed by governing law, the defaulting Partnership waives any available right of redemption from and after the date of judgment, any required valuation or appraisement of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, the Partnership hereby grants to the other Parties a power of sale as to any property that is subject to the lien and security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice. The Partnership agrees that the other Parties shall be entitled to utilize the provisions of oil and gas lien law or other lien law of any state in which the Operating Assets are situated to enforce the obligations of each Party hereunder. Without limiting the generality of the foregoing, to the extent permitted by applicable law, the Partnership agrees that Manager may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Operating Assets are situated in order to secure the payment to Manager of any sum due hereunder for the Management Services or materials supplied by Manager.

4. Term.

(a) This Agreement shall continue in force indefinitely from the Effective Date until it is terminated by either Party upon ninety (90) days written notice to the other Party (the "Term").

(b) Unless another remedy is specified in this Agreement, in which case that remedy will be Manager's sole and exclusive remedy, if the Partnership files for bankruptcy, Manager may terminate this Agreement upon thirty (30) days written notice to the Partnership. Any such termination will be an additional remedy and will not prejudice the right of Manager to collect any amounts due it hereunder and any damage or loss suffered by it and will not waive any other legal or equitable remedy to which the Manager may be entitled for breach of this Agreement.

5. Standard of Care.

(a) In performing the Management Services, Manager shall perform all such Management Services as a reasonably prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good industry practice and in compliance with applicable law and regulation, but it shall have no liability to the Partnership from losses sustained or liabilities incurred as a result of the performance of the Management Services, except to the extent resulting from Manager's gross negligence or willful misconduct.

(b) Manager agrees to comply in all material respects with all applicable laws and regulations promulgated by all applicable federal, state and local jurisdictions in performing the Management Services.

6. Indemnification and Release of Liability.

(a) THE PARTNERSHIP HEREBY RELEASES AND SHALL INDEMNIFY, DEFEND AND HOLD HARMLESS MANAGER AND ITS AFFILIATES OR ANY OFFICER, PARTNER, MEMBER, DIRECTOR, AGENT, ATTORNEY OR EMPLOYEE OF MANAGER OR ITS AFFILIATES (COLLECTIVELY, THE "MANAGER INDEMNITEES") FROM, EACH AND EVERY LIABILITY OF EVERY KIND AND CHARACTER, ATTRIBUTABLE TO OR ARISING OUT OF ANY ACT OR OMISSION BY ANY OF THE MANAGER INDEMNITEES IN THE PERFORMANCE OF THIS AGREEMENT AND THE MANAGEMENT SERVICES TO BE PROVIDED HEREUNDER, EXCEPT TO THE EXTENT CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE MANAGER INDEMNITEES. THE RELEASE, INDEMNITY, DEFENSE AND HOLD HARMLESS PROVISIONS PROVIDED IN THIS SECTION SHALL BE APPLICABLE WHETHER OR NOT THE LIABILITY IN QUESTION AROSE OR RESULTED SOLELY OR IN PART FROM THE SOLE, CONCURRENT OR COMPARATIVE NEGLIGENCE, VIOLATION OF LAW, STRICT LIABILITY OR OTHER FAULT OF SUCH INDEMNITEE. FOR THE AVOIDANCE OF DOUBT, MANAGER SHALL HAVE NO LIABILITY FOR THE LOSS OR DEFERRAL OF ANY TAX BENEFIT RELATED TO IDCS OR OTRHER TAX BENEFITS TO THE PARTNESHIP (OR ITS PARTNERS) AND PARTNERSHIP EXPRESSLY RELEASES MANAGER FROM ANY SUCH LIABILITY.

(b) THE PARTNERSHIP ACKNOWLEDGES AND AGREES THAT OTHER THAN AS EXPRESSLY PROVIDED HEREIN, THE MANAGEMENT SERVICES BEING PROVIDED BY MANAGER UNDER THIS AGREEMENT ARE BEING PROVIDED ON AN “AS IS” BASIS. THE PARTIES NEGOTIATED THIS AGREEMENT WITH DUE REGARD FOR THE PARTIES’ BUSINESS RISK ASSOCIATED WITH USE OF THE MANAGEMENT SERVICES. THUS, TOTHEFULLEST EXTENT PERMITTED BY APPLICABLE LAW AND NOTWITHSTANDING ANY FAILURE OF PURPOSE OF ANY LIMITED REMEDY, MANAGER PROVIDES NO WARRANTIES, EXPRESS AND/OR IMPLIED, AND HEREBY DISCLAIMS ANY IMPLIED WARRANTIES OF MERCHANT-ABILITY, SUITABILITY, OR FITNESS FOR A PARTICULAR PURPOSE. MANAGER DOES NOT WARRANT THAT THEMANAGEMENT SERVICES WILL BE PROVIDED WITHOUT ERROR, OR THAT THE MANAGEMENT SERVICES WILL RESULT IN A PROFIT OR WILL ALLOW THE PARTNERSHIP TO RECAPTURE EACH OF THEIR INITIAL INVESTMENTS IN THE PROPERTIES OR THE PROJECT, NOR DOES MANAGER WARRANT THAT THE MANAGEMENT SERVICES WILL MEET THE PARTNERSHIP’S REQUIREMENTS.

(c) Any applicable statutory, regulatory or judicial limitations or restrictions now or hereafter imposed that affect the validity or enforceability of the indemnification and release provisions contained in this Agreement shall operate to amend such provisions only to the minimum extent necessary to bring such provisions into conformity with the particular statutory, regulatory or judicial requirements, and, as so modified, such provisions shall continue in force and effect to the fullest extent permitted by applicable law.

7. <u>Insurance.</u>

(a) Manager shall maintain insurance of the types and in amounts as set forth below (provided, however, Manager shall maintain additional types and greater amounts of insurance if such is required of Manager pursuant to the terms of each applicable Operating Agreement):

i. Workers’ compensation insurance in full compliance with all applicable state and federal laws and regulations;

ii. Employer’s liability insurance in the limits of $1,000,000 per accident covering injury or death to any employee who may be outside the scope of the workers’ compensation statute of the state in which the work is performed;

iii. Commercial (or comprehensive) general liability insurance with combined single limits per occurrence (and any general aggregate if applicable) of $1,000,000 for bodily injury and property damage, including property damage due to blowout and cratering, completed operations, and broad form contractual liability as respects any contract into which Manager may enter under the terms of this Agreement;

iv. Automobile liability insurance covering owned, non-owned and hired automotive equipment with limits for bodily injury and property damage of $1,000,000.

(b) The Partnership shall be named as additional insured and named as loss payee on Manager’s insurance policies set forth above, but only with respect to the performance of the Management Services pursuant to this Agreement and only to the limits shown in this Agreement.

(c) All such insurance shall be maintained in full force and effect during the Term of this Agreement. Manager agrees to cause its insurance carriers to furnish the Partnership, upon request, (i) certificates of insurance evidencing such insurance coverage and the Partnership’s status as additional insured and as loss payee on such insurance policies and (ii) endorsements or riders duly executed by the insurance carriers amending the insurance policies to add the Partnership as additional insured and as loss payee with respect to the above-described policies.

8. Representations and Warranties of Manager.

Manager represents, warrants, and covenants as of the date of this Agreement as follows:

(a) Manager is not subject to any other obligations that would conflict with or inhibit Manager’s ability to perform the Management Services.

(b) Manager is a Texas corporation, duly organized, validly existing, and in good standing under the laws of the State of Texas and is qualified to do business and is in good standing under the laws of all the states in which the Current Leases are located.

(c) The execution, delivery and performance of this Agreement by Manager (i) are within Manager’s power; (ii) have been duly authorized by all necessary or proper action; (iii) do not contravene any provision of Manager’s organization documents; (iv) do not violate any applicable law or regulation, or any order or decree of any court or Governmental Authority; (v) do not conflict with or result in the breach or termination of, constitute a default under or accelerate or permit the acceleration of any performance required by any agreement or other instrument to which Manager is a party or by which Manager or any of its property is bound; and (vi) do not require the consent or approval of any Governmental Authority or any other Person.

(d) This Agreement constitutes the valid and binding agreement of Manager enforceable against Manager in accordance with its terms.

(e) There are no bankruptcy, reorganization or arrangement proceedings pending, being contemplated by or, to the knowledge of Manager, threatened against Manager.

(f) Manager has or will obtain prior to any Manager related activities, all the permits, consents and approvals required to perform the Management Services as contemplated by this Agreement.

9. Representations and Warranties of the Partnership.

The Partnership represents, warrants and covenants as of the date of this Agreement as follows:

(a) As of the date hereof, the Partnership is a Texas limited partnership, duly organized, validly existing, and in good standing under the laws of the State of Texas.

(b) As of the date hereof, the Partnership is a Texas limited partnership, duly organized, validly existing, and in good standing under the laws of the State of Texas.

(c) The execution, delivery and performance of this Agreement (i) are within the Partnership's power; (ii) have been duly authorized by all necessary or proper action for the Partnership; (iii) do not contravene any provision of the Partnership's organization documents; (iv) do not violate any applicable law or regulation, or any order or decree of any court or Governmental Authority; (v) do not conflict with or result in the breach or termination of, constitute a default under or accelerate or permit the acceleration of any performance required by, any agreement or other instrument to which the Partnership is a party or by which the Partnership or any of its property is bound; and (vi) do not require the consent or approval of any Governmental Authority or any other Person.

(d) This Agreement constitutes the valid and binding agreement of the Partnership enforceable against the Partnership in accordance with its terms.

(e) There are no bankruptcy, reorganization or arrangement proceedings pending, being contemplated by or, to the knowledge of the Partnership, threatened against the Partnership.

(f) To its knowledge, the Partnership is not in violation of any applicable statute, law, rule, regulation, or ordinance, or any order of any court, Governmental Authority or arbitration board or tribunal in any respect.

(g) There is no pending or, to its knowledge, threatened litigation, arbitration, actions or proceedings against the Partnership.

(h) They are aware that Manager has been, is and will be actively engaged in other oil and gas acquisitions and operations for its own account, and for the account of other investors, which are or may be in competition with the interests of the Partnership. By its execution of this Agreement, the Partnership expressly acknowledges and accepts any such conflicts of interest arising from Manager's other business activities.

10. Defaults and Remedies

(a) If the Partnership fails to discharge any financial obligation under this Agreement, including without limitation the failure to make any advance under Section 2(e) or any other provision of this Agreement, within the period required for such payment hereunder, then in addition to the remedies provided in this Section 11 or elsewhere in this Agreement, the remedies specified below shall be applicable. For purposes of this Section 11, all notices and elections shall be delivered only by Manager. Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified below or otherwise available to Manager.

i. Suspension of Rights. Manager may deliver to the Partnership in default a notice of default, which shall specify the default, specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or more of the remedies provided in this Section. If the default is not cured within thirty (30) days of the delivery of such notice of default, all of the rights of the defaulting Partnership granted by this Agreement may upon notice be suspended until the default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing under this Agreement. The rights of a defaulting Partnership that may be suspended hereunder at the election of Manager shall include, without limitation, the right to receive information as to any operation conducted hereunder during the period of such default and the right to receive proceeds of production from any Well subject to this Agreement.

ii. Suit for Damages. Manager may sue to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default.

iii. Advance Payment. If a default is not cured within thirty (30) days of the delivery of a notice of default, Manager may thereafter require advance payment from the defaulting Partnership of such defaulting Partnership's anticipated share of any item of expense for which Manager would be entitled to reimbursement under any provision of this Agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of drilling a Well. If the defaulting Partnership fails to pay the required advance payment, Manager may pursue any of the remedies provided in this Section or any other default remedy provided elsewhere in this Agreement. Any excess of funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

11. Assignment; Preferential Right to Purchase.

(a) Assignment

i. For the purpose of maintaining uniformity of ownership in the Operating Assets, except as otherwise provided herein, no Party shall sell, encumber, transfer or make other disposition of its interests in the Operating Assets unless such disposition covers either:

1. the entire interest of the Party in the Operating Assets.

2. an equal undivided percent of the Party's present interest in the Operating Assets.

ii. Every sale, encumbrance, transfer or other disposition made by any Party shall be made expressly subject to this Agreement and shall be made without prejudice to the right of the other Parties; provided, however, that the other Parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after Manager has received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee and such Parties have had an opportunity to exercise their rights under Section 12(b) and 12(c).

iii. Preferential Right to Purchase. Should any Party desire to sell all or any part of its interests in the Operating Assets, it shall promptly give written notice to the other Parties, with full information concerning its proposed disposition, which shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal description sufficient to identify the property, and all other terms of the offer. The other Parties shall then have an optional prior right, for a period of ten (10) days after notice is delivered, to purchase for the stated consideration on the same terms and conditions the interest which the other Party proposes to sell; and, if this optional right is exercised, the purchasing Parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing Parties. However, there shall be no preferential right to purchase in those cases where any Party wishes to transfer its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which such Party owns a majority of the stock.

12. Miscellaneous.

(a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas (without giving effect to any principles of conflicts of laws that would result in the application of the laws of another jurisdiction).

(b) All obligations (other than financial obligations) of either Party to this Agreement shall be suspended so long as the performance of such obligation is prevented or hindered in whole or in part by reason of acts of God; strikes, lockouts or other industrial disturbances; acts of the public enemy; wars; blockades; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; storms; hurricanes; floods; washouts; arrests and restraints of the government, either federal or state, civil or military; civil disturbances; explosions; breakage; breakdown or accident to machinery, equipment or lines of pipe; shortages or the inability to obtain material or labor on commercially reasonable economic terms and any other causes, whether of the kind herein enumerated or otherwise, not reasonably within the control of the Parties, and which by the exercise of good faith and due diligence the Party is unable, wholly or in part, to prevent or overcome. Such term likewise includes, in those instances where a Party is required to secure permits or permission from any Governmental Authority to enable the Party to fulfill its obligations hereunder, the inability of the Party to acquire or the delays on the part of the Party in acquiring, after the exercise of commercially reasonable diligence, such permits and permissions.

Upon the happening of any such cause, the Party claiming suspension shall immediately notify the other Party, specifying in reasonable detail the reason for the nonperformance and the Party giving such notice shall thereafter use all reasonable efforts to eliminate such cause, but it shall not thereby be or become obligated to settle any strikes or lockouts.

(c) Except as otherwise set forth in this Agreement, the Partnership and Manager agree to resolve any dispute, controversy or claim arising out of or in relation to or in connection with this Agreement, including without limitation any dispute as to its validity, interpretation, enforceability or breach, by binding arbitration, and the Parties waive all rights to have any such disputes heard before a court of law, except the right to enforce an arbitration award under the provisions of this Section. Any arbitration shall proceed in accordance with the following terms:

13. <u>Required Arbitration Notice</u>

(a) Arbitration is final and binding on the parties. All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.

(b) The parties waive their right to seek remedies in court, including the right to a jury trial. Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.

(c) Pre-arbitration discovery is generally more limited than and different from court proceedings. The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.

(d) The arbitrators' award is not required to include factual findings or legal reasoning and any party's right to appeal or seek modification of rulings of the arbitrators is strictly limited. The arbitrators do not have to explain the reason(s) for their award.

(e) The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.

(f) The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this agreement.

14. <u>ARBITRATION CLAUSE – King Operating Partners III LP and its Managing General Partner and Affiliates</u>

If a dispute, controversy or claim, of any kind and every kind or type, whether based on contract, tort, statute, regulations, or otherwise, arising out of, or connected with, or relating in any way to this Agreement, or the relationship of the parties, or the obligations of the parties, or the operations carried out under this Agreement, including without limitation, any dispute as to the existence, validity, construction, interpretation, negotiation, performance, non-performance, breach, termination, or enforceability of this Agreement, the breach thereof (any one of which constituting the “Dispute”) or claims against involving the Partnership, its Managing General Partner, KOP III GP LLC, and the officers, employees, contractors, consultants and Affiliates of the Managing General Partner, including, but not limited to King Operating Corporation and James R. Young, and if the Dispute cannot be settled through direct discussions (in the opinion of any party), the parties agree to first endeavor to settle the Dispute in an amicable manner by mediation using an agreed-upon third-party attorney mediator, before resorting to arbitration. If the Dispute is not settled by mediation, then and thereafter any unresolved Dispute, including the arbitrability of any unresolved Dispute, shall be resolved by final and binding arbitration administered by and pursuant to the rules of the American Arbitration Association (“AAA”) in accordance with then current Commercial Arbitration Rules with the award being final and binding. Any controversy concerning whether a Dispute is arbitrable shall be determined by the arbitrator(s) and not by any court. Judgment upon the award rendered by the arbitrator(s) may be entered in any state or federal court having jurisdiction thereof. Any provisional remedy which would be available from a court of law shall be available from the arbitrator(s) to the parties to this Agreement pending arbitration. No party shall be entitled to join or consolidate claims in arbitration by or against other investors or arbitrate any claim as a representative or member of a class or in a private attorney general capacity.

During the arbitration, civil discovery shall be permitted for the production of documents and taking of depositions. The arbitrator(s) shall be guided but not controlled by the Texas Rules of Civil Procedure in allowing discovery and all issues regarding compliance with discovery requests shall be decided by the arbitrator(s). The arbitrator(s) may impose sanctions and take other actions with regard to the parties that the arbitrator(s) deem appropriate to the same extent that a judge could pursuant to the Texas Rules of Civil Procedure. The Federal Arbitration Act shall govern all arbitration proceedings under this Agreement. This Agreement shall in all other respects be governed and interpreted by the laws of the State of Texas, including its statutes of limitation but excluding any conflicts or choice of law rule or principles that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The arbitration shall be conducted in Dallas County, Texas as the exclusive venue, by one neutral arbitrator chosen by AAA according to its Commercial Arbitration Rules if the amount of the claim, exclusive of interest and costs, is one million dollars ($1,000,000) or less or by three neutral arbitrators chosen by AAA in the same manner as the one neutral arbitrator if the amount of the claim, exclusive of interest and costs, is more than one million dollars ($1,000,000). Neither party nor the arbitrator(s) may disclose the existence, content, evidence presented during, or results of any arbitration hereunder without the prior written consent of all parties. The parties voluntarily and knowingly waive any right they have to a jury trial.

The arbitrator(s) has no authority to award punitive or exemplary damages. The arbitrator(s)’ award must be rendered within 60 days following the conclusion of the hearing or submission of evidence. The award of the arbitrator(s) shall be in writing.

All fees and expenses of the arbitration shall be borne by the parties equally who shall make deposits as requested by AAA of each party's share of the deposits requested. Failure or refusal by a party to pay its share of the requested deposits shall constitute a waiver by the non-paying party of its rights to be heard, present evidence, cross- examine witnesses, and assert counterclaims in the arbitration. Informing the arbitrator(s) of a party's failure to pay its share of the requested deposits for the purpose of implementing this waiver provision shall not be deemed to affect the arbitrator's impartiality, neutrality, independence, or ability to proceed with the arbitration. Absent a contrary finding by the arbitrator(s), each party shall bear the expense of its own counsel and attorney's fees, experts, witnesses, and preparation and presentation of proofs. This agreement to arbitrate shall survive the termination or repudiation of this Agreement.

15. <u>Notices.</u>

(a) Any notice or other communication required or permitted hereby shall be in writing and the same shall be deemed given upon delivery thereof in person, one Business Day after such notice is deposited with an overnight delivery service such as Federal Express or Airborne, or immediately when sent by facsimile transmission or electronic mail with an image attachment (such as a .PDF file or .JPEG file) and addressed or faxed as follows:

To the Partnership as follows:

King Operating Partners III LP
15301 Dallas Parkway, Suite 900
Addison, Texas 75001
Telephone: (214) 420-3000

E-mail: partners@kingoperating.com

To Manager as follows:

King Operating Corporation
15301 Dallas Parkway, Suite 900
Addison, Texas 75001
Telephone: (214) 420-3000
E-mail: partners@kingoperating.com

From time to time, any Party may designate another address or facsimile telephone number or electronic mail address for all purposes of this Agreement by giving to the other Parties not less than five (5) days advance written notice of such change of address or facsimile telephone number or electronic mail address in accordance with the provisions hereof. The failure or refusal of a Party to accept receipt of a notice hereunder shall in no manner invalidate the notice. For the purposes of this Agreement, "Business Day" shall mean each and every day of the week except for Saturday, Sunday and any federally recognized holiday.

(b) In the event that any one or more of the provisions contained herein or in any instrument referred to herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, then to the maximum extent permitted by law, such provision or provisions shall be judicially reformed consistent with the Parties' intentions so as to be valid, legal and enforceable, and such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or such other instrument.

(c) The Agreement shall constitute the entire agreement between the Parties regarding the subject matter herein. Any change, amendment, waiver or modification of this Agreement must be in writing and executed by an authorized representative of each Party. Notwithstanding the foregoing, Manager shall have the unilateral right to amend Exhibit A to reflect ownership in the Operating Assets as such ownership changes from time to time.

(d) It is not the intention of the Parties to create, nor shall this Agreement be construed as creating, a mining or other partnership, joint venture, agency relationship or association, or to render the Parties liable as partners, co-venturers, or principals.

16. Definitions.

As used in this Agreement, the following capitalized terms shall have the meanings set forth below:

(a) "AFE" means an authority of expenditure that is created pursuant to the terms of this Agreement.

(b) "Cash Assets" means any readily available funds and any accounts of the Partnership, including all bank accounts.

(c) "Contracts" means any Subject Leases, Operating Agreements, contracts, agreements, documents, or instruments relating to the Operating Assets.

(d) "Current Leases" means the Leases that have been entered into or acquired by the Partnership as of the Effective Date.

(e) "Equipment" means all fixtures and improvements and facilities, spare parts and inventory, equipment, pipelines, pipeline laterals, well pads, tank batteries, well heads, platforms, treating equipment, compressors, power lines, casing, tubing, pumps, motors, gauges, valves, heaters, and treaters which are appurtenant to the Lands or Wells, including, but not limited to, facilities, gathering systems, plants, treating and processing systems, casing, pipelines and gathering systems.

(f) "Existing Operating Agreements" means all joint operating agreements entered into or assumed by the Partnership as of the Effective Date.

(g) "Future Leases" means any Lease that will be entered into or acquired by the Partnership after the Effective Date.

(h) "Future Operating Agreements" means all joint operating agreements entered into by the Partnership after the Effective Date.

(i) "Governmental Authority" means any federal, state, county, city, municipal, local, or foreign government or authority, including any instrumentality, division, agency, body, or department thereof, including, without limitation, the Texas Railroad Commission.

(j) "Hydrocarbons" means all of oil, natural gas, condensate, casinghead gas, products, or other minerals.

(k) "Lands" means all lands covered by or included in the Mineral Interests and Surface Interests.

(l) "Lease" means an oil, gas and/or mineral lease.

(m) "Mineral Interest" means to the extent owned prior to, on or after the Effective Date by the Partnership, the following: (i) working interests, royalty interests, overriding royalty interests and net profits interests in the Subject Leases, (ii) production payments, (iii) forced pooled interests, (iv) interests acquired under contracts relating to mineral production or extraction or (v) any interest in any minerals or mineral estates (including revisionary interests).

(n) "Operating Agreements" means the Existing Operating Agreements and the Future Operating Agreements.

(o) "Operating Assets" means the Mineral Interests, Surface Interests, Hydrocarbons, Equipment, and the Other Assets.

(p) "Other Assets" means all tangible assets of the Partnership used for the purposes of extracting, developing, gathering, transporting, and delivering Hydrocarbons that are not either Mineral Interests, Surface Interests, Equipment, Cash Assets, or Contracts.

(q) "Person" means any individual, partnership, joint venture, corporation, trust, limited liability company, unincorporated organization, government or department or agency thereof or other entity.

(r) "Subject Leases" means any Lease entered into or acquired, in whole or in part (including royalty interests and overriding royalty interest), by the Partnership, including, without limitation, all Current Leases and Future Leases.

(s) "Surface Interests" means any interest in any surface estate owned prior to, on or after the Effective Date by the Partnership, including, without limitation, any rights-of-way, surface deeds, surface leases, surface use rights or agreements, easements, licenses, approvals, servitudes, and franchises.

(t) "Wellbore Assignment" means transfer of ownership or operatorship rights of a wellbore from one party to another. The assignment may be limited to the wellbore of a well, meaning that the assignor is assigning only those rights to production from the wellbore of a certain well, arguably at the total depth it existed at the time of the assignment.

(u) "Wells" means all oil and gas wells, saltwater disposal wells, injection wells, and other wells and wellbores located on the Lands.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement to be effective as of the Effective Date.

KING OPERATING CORPORATION

By:______________________________
James R. Young, CEO

KING OPERATING PARTNERS III LP

By:______________________________
KOP III GP LLC, Managing Partner
James R. Young, Manager

<u>Exhibit A</u>

Operating Asset Ownership Percentages

Partnership	Ownership Percentage
King Operating Partners III LP	TBD%

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Exhibit D

Tax Opinion

King Operating Partners III, LP

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October 29, 2024

King Operating Partners III LP
15301 Dallas Parkway Suite 900
Addison, TX 75001

Re: Special Allocations of Partnership Deductions and Certain Other Tax Issues

Dear Ladies and Gentlemen:

bodman

ATTORNEYS & COUNSELORS

You have requested our opinion regarding the federal income tax treatment of certain special allocations of deductions contained in the Agreement of Limited Partnership of King Operating Partners III LP (the "Partnership"), dated October 29, 2024 (the "Partnership Agreement"). Specifically, we have been asked to provide an opinion as to whether: (i) the special allocations of certain Partnership items of deduction attributable to: (A) intangible drilling and development costs ("IDC") deductible under Code § 263(c) of the Internal Revenue Code of 1986, as amended (the "Code"); (B) any Qualified Depreciation Expenses (as defined below) and other costs incurred by the Partnership in connection with completing and equipping the Wells (as defined below); and (C) any depletion deductions attributable to leasehold acquisition costs.[1] to the Investor Partners (as defined below), pursuant to Sections 8.04 of the Partnership Agreement (collectively the "Special Allocations"), should be respected under Code § 704(b); (ii) the Special Allocations of such Applicable Deductions would be treated as retroactive allocations that are prohibited by Code § 706(d); (iii) whether Partnership income allocated to the Investor Partners for tax years after they convert their Investor Partner Interests (as defined below) from general to limited partner interests would be treated as income earned by a limited partner that is exempt from self- employment tax under Code § 1402(a)(13); (iv) whether there would be gain or loss upon the conversion of an Investor Partner's general partner interest in the Partnership to a limited partner interest in the Partnership (a "Conversion"); (v) whether an Investor Partner that undergoes a Conversion who treated income and deduction allocations from the Partnership as not from a passive activity solely due to Treas. Reg. § l.469-2(c)(6) before the Conversion would be required to treat any income or deductions from the Partnership after the Conversion also as not from a passive activity; (vi) whether Partnership income allocated to the Investor Partners during a year in which they are general or limited partners would be subject to net investment income tax under Code§ 1411 (the "NII Tax"); and (vii) whether the Partnership's reimbursement of preformation expenses incurred by King Operating Corporation ("KOC") or its Affiliates on behalf of the Partnership

[1] In this opinion, the items of Partnership deduction described in (A) - (C) are collectively referred to as the "Applicable Deductions."

should be respected in accordance with their form and not treated as a capital contribution or disguised sale.

Based upon the facts and analysis set forth in more detail below and subject to the limitations, qualifications, assumptions and caveats set forth herein, we are of the opinion that: (i) the Special Allocations to the Investor Partners should be regarded as having substantial economic effect to the extent that the Special Allocations do not result in an Investor Partner having an Adjusted Capital Account Deficit, and therefore, to such extent, the Special Allocations should be respected under Code § 704(b); (ii) the Special Allocations to the Investor Partners should not be regarded as retroactive allocations which are barred by Code § 706(d); (iii) Partnership income allocated to the Investor Partners for tax years after their interests are converted from general to limited partner interests should be exempt from self-employment tax under Code§ 1402(a)(13); (iv) the Conversion of an Investor Partner's Partnership interest should not generate gain or loss to such Investor Partner; (v) an Investor Partner who undergoes a Conversion and previously treated income and deduction allocations from the Partnership as not from a passive activity solely due to Treas. Reg. § 1.469-2(c)(6) prior to the Conversion should be required to treat any income or deduction allocations from the Partnership after the Conversion as not from a passive activity for purposes of Code § 469; (vi) Partnership income allocated to the Investor Partners during a year in which they are general or limited partners should be subject to the NII Tax; and (vii) the Partnership's reimbursement of preformation expenses incurred by KOC or its Affiliates on behalf of the Partnership should be respected in accordance with their form and not treated as a capital contribution or disguised sale.

This opinion is limited to the federal tax issues expressly discussed herein. Additional federal tax issues may exist that could affect the federal tax treatment of the transactions discussed herein and the matters that are the subject of this opinion. We are not opining as to any other issue, including without limitation: (i) whether the Partnership will be regarded as a Partnership for federal income tax purposes; (ii) the validity or tax effect of any other allocations or terms set out the Partnership Agreement; (iii) whether (and the extent to which) any of the Applicable Deductions that may give rise to the Special Allocations can be properly claimed by the Partnership; and (iv) whether any transfers would be treated as the disguised sale of a partnership interest. We express no opinion regarding the tax treatment of the Special Allocations under any state, local or foreign tax law.

I. Factual Background

In preparing our opinion, we have been provided with, and have examined, the following documents and information: (i) Confidential

Private Placement Memorandum for King Operating Partners III LP, dated October 29, 2024 ,

describing the partnership interests being offered by the Partnership (the "PPM");
(ii) the Partnership Agreement; and (iii) the subscription agreement whereby a potential investor subscribes for an interest in the Partnership (the "Subscription Agreement"). For purposes of this opinion, the PPM, the Partnership Agreement, and the Subscription Agreement are collectively referred to as the "Transaction Documents."

The circumstances in which we have reviewed the questions set forth above and for which we are providing our opinion are summarized as follows:

The Partnership is offering up to 500 Units for $100,000,000 worth of Class A Units of partnership interests in the Partnership with $200,000.00 per Class A Unit ("Investor Partner Interests") to potential investors. Potential investors indicate their interest in becoming partners in the Partnership ("Investor Partners") by entering into a Subscription Agreement with the Partnership and submitting other forms required by the Partnership. An Investor Partner will receive one (1) Class A Unit of Membership interest for each $200,000 of capital contributed to the Partnership. The minimum investment amount equals $200,000 unless lesser amounts are permitted by the managing Partner at its sole discretion. Each Investor Partner can acquire Investor Partner Interests that are general or limited partner interests. The Partnership Agreement allows Investor Partners who hold general partner interests to convert such interests to limited partner interests after all funds for exploration and development activities have been expended. Under the Partnership Agreement, this conversion will be made at one time with respect to all of the general partner interests held by the Investor Partners upon a majority vote of the Investor Partners and will be effective on January 1 of the year following such vote.

The Partnership has been formed to acquire working interests in oil and gas properties located in the continental United States (the "Properties") and drill oil and gas wells ("Wells") on the Properties in an attempt to obtain production from such Wells in commercial quantities. The Properties may be presently owned, or the acquisition of such interests is currently being completed, by KOC. KOC will transfer such Properties to the Partnership. A portion of the capital contributed to the Partnership by the Investor Partners will be used to acquire such Properties. An affiliate of KOC may also acquire/retain interests in the Properties for its own account. As a result of acquiring such Properties, the Partnership will have the right and obligation to explore for oil and gas on the Properties. The Properties are assets of the Partnership, thus the Partnership is obligated to pay for the cost of the Properties and the costs of exploration, drilling and operating the Wells.

The drilling and development of the Wells will be conducted by KOC pursuant to an agreement (the "Management Agreement") between KOC and KOP III GP, LLC which is the managing general partner of the Partnership (the "Managing Partner '). The Managing Partner can bind the Partnership to such agreement in its sole discretion. Pursuant to this Management Agreement, the Partnership will be responsible for its pro-rata share of the actual costs, plus a contribution margin equal to twenty (20%) of drilling and development of the Wells. KOC will incur costs to develop the Properties and will require prepayment of such costs by the Partnership as partnership funds become available, subsequent to the receipt of contributed capital by the Investor Partners. The terms outlining such prepayments are further detailed in the Management Agreement.

The drilling program being undertaken by the Partnership in connection with the offering is expected to involve multiple wells in multiple drilling locations with the continental United States. It is anticipated that Investor Partners will be admitted to the Partnership at various times throughout the course of the development of the Wells. It is possible that Investor Partners may be admitted to the Partnership after drilling on some of the Wells has commenced or even after one or more of the Wells have been completed. Even so, this offering has been structured so that each Investor Partner shares in the success of all the Wells owned by the Partnership on a pro-rata basis. It is also intended that the Partners, to the greatest extent permissible, share on a pro-rata basis in each of the taxable income and deduction incurred by the Partnership.

However, because some Investor Partners may acquire their Investor Partner Interests later than others, absent the Special Allocations, it would likely not be possible for the Partnership to allocate the Applicable Deductions to the Investor Partners pro-rata based on their respective capital contributions. As discussed in greater detail below, this problem results from the rule under Code § 706(d) that prevents a partnership from allocating losses and deductions to a partner which arose before the date on which the person became partner. Accordingly, based on the application of Code § 706(d), without the Special Allocations, the later admitted Investor Partners would be allocated fewer Applicable Deductions than the earlier admitted Investor Partners. This is due to the fact that all Applicable Deductions arising before the date that a later Investor Partner is admitted must be allocated solely to the partners who were admitted when such deductions arose and, absent the Special Allocations, all Applicable Deductions arising after the admission of a later admitted Investor Partner will be shared by all Investor Partners, pro-rata. This rule under Code § 706(d) applies notwithstanding the fact that the later admitted Investor Partners will contribute the same amount of capital (proportionately) as the previously admitted Investor Partners. You have indicated that the Partnership believes that such disproportionate allocation of Applicable Deductions among the Investor Partners would be inequitable because, like the capital contributed by the earlier admitted Investor Partners, the amounts contributed by any later admitted Investor Partners will be fully expended on drilling and related costs. Moreover, it is anticipated that the contributions of each later admitted Investor Partner will be used to fund the exploration and development of Wells that are drilled after the admission of each such later admitted Investor Partner. Since the capital contributed by the later admitted Investor Partners will primarily be used to fund the development of such future Wells, and the drilling of such Wells would not be possible without the capital contributions of such later admitted Investor Partner, you have indicated that the Partnership believes that it is equitable that deductions attributable to such contributions be allocated to the later admitted Investor Partners.

In order to resolve the inequities created by the limitation set forth in Code § 706(d) and to allow the Investor Partners to share proportionately in the Partnership's Applicable Deductions, Sections 8.04 of the Partnership Agreement contain the following Special Allocations:

(a) Lease Acquisition Costs incurred in connection with the acquisition of any Partnership Properties by the Partnership shall be specially allocated to the Unit Holders other than the Class B Unit Holders in proportion to their Units held.

(b) Pursuant to the provisions of the Code, all depletion deductions with respect to oil and gas properties in which the Partnership holds a direct or indirect interest shall be computed by the Unit Holders separately rather than the Partnership. Simulated Gain, Simulated Depletion and Simulated Losses shall be allocated among the Partners in accordance with Section 4.01(c). Each Partner shall be allocated an adjusted tax basis in each separate oil and gas property and any depletion computed with respect thereto, both as computed in accordance with the Code and this Agreement. Depletion deductions shall be allocated on the basis of Net Operating Cash Flow, as determined by the Managing General Partner in its sole discretion.

(c) All costs which are immediately deductible under Section 168(k) of the Code ("Qualified Depreciation Expenses") and all other depreciation deductions shall be specially allocated among the Investor Partners so that the cumulative amount of all such depreciation deductions allocated to the Investor Partners, at any time, is always in proportion to their Capital Contributions, except that, in making such special allocations of depreciation deductions to the Investor Partners, an Investor Partner may only be allocated such depreciation deductions attributable to a period arising on or after the date on which such Investor Partner was admitted to the Partnership (as and to the extent determined under Code Section 168 and 706). In the event the Managing General Partner shall determine that such result is not likely to be achieved through such special allocations of such depreciation deductions under this Section 8.04(c), the Managing General Partner may allocate a portion of Profits or Losses so as to achieve the same effect on the Capital Accounts of the Investor Partners, notwithstanding any other provision of this Agreement to the contrary. The Partnership shall make an election to expense Qualified Depreciation Expenses.

(d) All Intangible Drilling Costs deductible under Section 263(c) of the Code shall be specially allocated among the Investor Partners so that the cumulative amount of such Intangible Drilling Cost deductions allocated to the Investor Partners at any time is always in proportion to their Capital Contributions, except that, in making such special allocations of such Intangible Drilling Cost deductions to the Investor Partners, an Investor Partner may only be allocated deductions arising on or after the date on which such Investor Partner was admitted to the Partnership. For purposes of the preceding sentence, a deduction shall not be deemed to arise on or after the date on which an Investor Partner is admitted to the Partnership to the extent that the "cash accounting rule" (as described in Code Section 706(d)(2)) attributes such deduction to any period prior to the admission of such Investor Partner. In the event the Managing General Partner shall determine that such result is not likely to be achieved through such special allocations of such Intangible Drilling Cost deductions under this Section 8.04(d), the Managing General Partner may allocate a portion of Profits or Losses so as to achieve the same effect on the Capital Accounts of the Investor Partners, notwithstanding any other provision of this Agreement to the contrary. The Partnership shall make an election to expense Intangible Drilling Costs.

Pursuant to these Special Allocations, the Partnership's Applicable Deductions are allocated among the Investor Partners so that the cumulative amount of such deductions allocated to the Investor Partners is in proportion to their relative capital contributions. However, pursuant to these Sections, the Special Allocations may only be made to an Investor Partner if the item of Applicable Deduction arises on or after the date that such Investor Partner is admitted to the Partnership. Pursuant to Sections 8.04(c), (d) of the Partnership Agreement and, in accordance with the limitations of Code § 706(d), items of Applicable Deduction that arise before the date an Investor Partner is admitted to the Partnership cannot be allocated to such Investor Partner. The purpose of the Special Allocations of post-admission items of Applicable Deduction to the later admitted Investor Partners is to put such Investor Partners in substantially the same position as if all Partnership items of Applicable Deduction would have been allocated pro-rata among all Investor Partners, without regard to when each Investor Partner was admitted to the Partnership.

The Partnership Agreement generally provides that income is allocated among the Partners, pro-rata, in accordance with their respective Units. However, Sections 8.04(c), (d) of the Partnership Agreement allow the Managing Partner to specially allocate future Profits and Losses of the Partnership in the event that there are insufficient Applicable Deductions arising after the date that an Investor Partner is admitted to the Partnership so as to put such Investor Partner in a substantially similar position, as determined by the Managing Partner, as if all Partnership items of Applicable Deduction had been allocated among all of the Investor Partners, pro-rata, based on capital contributed.

II. Representations and Assumptions[2]

For purposes of this opinion, we have assumed, without making any independent investigation, that:

(a) All Transaction Documents as furnished to us are complete and authentic, that the signatures on all Transaction Documents are genuine, that all Transaction Documents have been, or in the case of drafts, will be, duly authorized, executed and delivered, and the existence of and legal capacity of natural persons;

(b) All Transaction Documents and any other instruments referred to in this opinion are valid and binding m accordance with their terms;

(c) The Transactions Documents have not been, nor will they be, modified, amended, withdrawn, revoked, cancelled or altered in any way;

(d) Each of the parties to each of the Transaction Documents has full power, authority, and legal right to enter into and perform the terms of the Transaction Documents, and are authorized to take any and all actions, thereunder, in connection with the actions contemplated thereby;

(e) The Transaction Documents contain an accurate and complete description of all the facts and circumstances relevant to the formation, ownership, operation, and activities of the Partnership;

[2] In compliance with the requirements of Section 10.37 of Treasury Department Circular 230 ("Circular 230"), we note that the assumptions related to the Transaction Documents have been assumed by us without independent verification or investigation. With respect to the other representations and assumptions, we have conducted such due

diligence as we believe appropriate to determine that our reliance on these assumptions, factual statements, and representations are not misleading or incomplete.

(f) Other than the Transaction Documents, there are no other documents that affect the opinions herein, and that the Transaction Documents reviewed by us reflect the entire agreement of the parties thereto with respect to the subject matter thereof;

(g) All statements in the Certificate with Respect to Tax Matters, dated on or about the same date hereof, issued by KOC, the Partnership and the Managing Partner to Bodman PLC (the "Tax Certificate") and the summarization of the facts set forth in Section I above are true, accurate and complete in all respects;

(h) The Partnership will acquire varying amounts of working interests in the Wells as described in the PPM;

The Partnership will properly elect to deduct any intangible drilling and development costs pursuant to Code § 263(c) and Treasury Regulations §§ l.612-4(d) and 1.703-l(b)(l) in the first taxable in year in which the Partnership incurs any IDCs;

(j) The Partnership will be entitled to deduct the IDCs, in the taxable year reported by the Partnership, in connection with the development of the Wells under Treasury Regulations§ 1.612- 4;

(k) The Partnership will be entitled to deduct and depreciate in the taxable year reported by the Partnership all other Applicable Deductions related to the acquisition of the working interests and tile drilling and development of the Wells under the Code;

(1) The Partnership Agreement prov1s10ns related to maintenance of the partners' capital accounts, distributions to the partners on liquidation and the Deficit Restoration Obligation (DRO') as defined below in the economic effect test discussion of Partners following liquidation have been part of the Partnership Agreement throughout the full term of Partnership's existence and will not be amended in the future;

(m) None of the Partners will have any tax attributes that would cause the Special Allocations to result in the Partners incmring in the aggregate, a lower total amount of federal income tax than the aggregate total amount that would be due by all Partners combined if the Special Allocations were not included in the Partnership Agreement;

(n) the Partners would not have any tax attributes that would result in the Special Allocations reducing the aggregate tax liability of the Partners for any given year or years below the amount of aggregate tax which would be owed by the Partners if the Special Allocations were instead allocated among the Partners, pro-rata, based on their respective interests in the Partnership;

(o) Any capitalized terms not otherwise defined in this opinion shall have the meaning ascribed to such term in the Partnership Agreement;

(p) The Investor Partners will have no involvement in the management or business of the Partnership and will perform no services for the Partnership;

(q) The Investor Partners have acquired their Investor Partner Interests solely for investment purposes;

(r) Under Texas law, the Investor Partners who initially acquired general partner interests will not have personal liability for any obligations of the Partnership arising after the date their Investor Partner Interests are converted to limited partner interests;

(s) The Partnership has complied (and will continue to comply) with all of the requirements of Texas limited partnership law;

(t) Under Texas limited partnership law, the Investor Partners will have no authority to enter into contracts on behalf of the Partnership and

(u) At the time any Investor Partner converts its interest from general partner to limited partner, there will be no change in such Investor Partner's share of partnership liabilities because we have assumed that the partnership will have no indebtedness and there would be no liabilities or other claims against such Investor Partner for Partnership obligations/operations based on such partner's status as a general partner.

III. <u>Discussion of Relevant Law & Analysis</u>

A. The Special Allocations Should Have Substantial Economic Effect and Therefore Should Be Respected Under Code § 704(b)

If a partnership agreement provides for the allocation of partnership items of income, gain, loss, deduction or credit among the partners, then such allocation will be respected under Code § 704(b) and given effect for tax purposes if the allocation has substantial economic effect.[3] Code§ 704(b); Treas. Reg. § 1.704- l(b)(l)(i).[4] The Treasury Regulations provide that, in order for an allocation to have substantial economic effect, it must pass two distinct tests: (i) the allocation must have economic effect; and (ii) such effect must be substantial. Treas. Reg. § 1.704-l(b)(2).

1. Economic Effect Test

Generally speaking, in order for an allocation to have economic effect, it must be consistent with the underlying economic arrangement of the partners, which means that if there is an economic benefit or burden that corresponds to an allocation, the partner to whom the allocation is made must receive such economic benefit or bear such burden. See Treas. Reg.§ 1.704-l(b)(2)(ii)(a). The Treasury Regulations set forth two specific tests for determining whether an allocation has economic effect.

Under the primary test, an allocation has economic effect only if, throughout the duration of the partnership, the partnership agreement provides that: (i) the partners' capital accounts must be maintained in accordance with the rules set forth in Treasury Regulations § 1.704(b)(2)(iv); (ii) liquidating distributions are to be made in accordance with the partners' positive capital account balances; and (iii) a partner must be unconditionally obligated to restore a deficit capital account balance following the liquidation of the partnership or of his interest in the partnership (herein referred to as a "Deficit Restoration Obligation" or a DRO). See *Estate of Melvin W Ballantyne v. Commissioner,* T.C. Memo 2002-160 (citing *Vecchio v. Commissioner,* 103 T.C. 170 (1994) and Treas. Reg. § 1.704(b)(2)(ii)(b)).

The alternative test for economic effect is satisfied with respect to an allocation if, throughout the duration of the partnership, the partnership agreement provides that: (i) the partners' capital accounts must be maintained in accordance

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[3] An allocation also meets the requirements of Code § 704(b) if either: (i) taking into account all of the facts and circumstances, the allocation is in accordance with the partners' interests in the partnership; or (ii) the allocation can be deemed to be in accordance with the partners' interests in the partnership under one of the special rules set forth in Treasury Regulations § l.704-2(b)(4). We offer no opinion regarding whether the Special Allocations to the Investor Partners would satisfy either of the requirements set forth in the preceding sentence.

[4] Under prior law (before the amendment of Code § 704(b) by the Tax Reform Act of 1976, P.L. 94-455, 90 Stat. 1520 (1976)), the validity of partnership special allocations was based on whether an allocation had a tax avoidance purpose and substantial economic effect was only one factor in making such determination. After the Tax Reform Act, substantial economic effect became the sole factor for evaluating the validity of non-

pro-rata special allocations under Code § 704(b).

with the rules set forth in Treasury Regulations§ l.704-l(b)(2)(iv); (ii) liquidating distributions are to be made in accordance with the partners' positive capital account balances; (iii) the partner to whom an allocation is made either has no DRO or a limited DRO; and (iv) the partnership agreement has a qualified income offset provision. See Treas. Reg. § l. 704-1(b)(2)(ii)(d).

A partnership agreement contains a "qualified income offset" if, and only if, it provides that a partner who unexpectedly receives an adjustment, allocation, or distribution described in Treasury Regulations§ l.704-l(b)(2)(ii)(d)(4), (5), or (6) will 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 such year) in an amount and manner sufficient to eliminate such deficit balance as quickly as possible. See Treas. Reg.§ l.704-l(b)(2)(ii)(d). If the foregoing requirements are satisfied, then an allocation to a partner will be considered to have economic effect under the "alternative test" to the extent that such allocation does not cause or increase a deficit balance in the partner's capital account in excess of the amount that such partner is obligated to restore pursuant to a DRO.[5]

The Special Allocations to the Investor Partners would not satisfy the primary economic effect test because the Investor Partners do not have an unconditional DRO, as evidenced by Section 11.08 of the Partnership Agreement.

However, the Special Allocations to the Investor Partners should satisfy the requirements of the alternative economic effect test. Section 4.01 of the Partnership Agreement provides that each Partner shall have a Capital Account which shall be maintained so as to comply with the requirements of Code § 704 and the Regulations promulgated thereunder which should satisfy the capital account maintenance requirement described in (i) above.

Moreover, Section 11.03 of the Partnership Agreement provides that:

> In the event of dissolution as provided in Section 11.01 above, the assets of the Partnership shall be paid and distributed in the following order: (c) The balance of the assets of the Partnership shall then be distributed to the Unit Holders in the following order: (i) first, to the Managing Partner in an amount equal to any accrued and unpaid portion of any Contribution Margin; (ii) second, to the Unit Holders, pro rata, in proportion, and to the extent of their remaining positive Capital Account balances; provided, however, that the Unit Holders' Capital Accounts first shall be adjusted to reflect the manner in

which any unrealized income, gain, loss and deduction inherent in the Partnership's property (including oil and

[5] For purposes of this computation, a partner's capital account balance is reduced by certain allocations ofloss and distributions that are reasonably expected to be made as of the end of a fiscal year as set forth in Treasury Regulations§ l.704-l(b)(2)(ii)(d)(4)-(6).

> gas properties), which has not previously been reflected in the Unit Holders' Capital Accounts, would be allocated among the Unit Holders if there had been a taxable disposition of the Partnership's assets at fair market value on the date of distribution; and (iii) third, to the Unit Holders in accordance with the provisions of Section 8.0l(c).

This provision should satisfy the second requirement of the alternative economic effect test that liquidating distributions be made in accordance with the partners' positive capital account balances.

With respect to the Investor Partners, the third requirement of the alternative economic effect test should also be satisfied, since, pursuant to Section 11.08 of the Partnership Agreement, the Investor Partners either have no DRO or a limited DR0.[6]

The final requirement for the alternative economic effect test should also be satisfied, as Section 8.5(c) provides that:

> In the event any Unit Holder unexpectedly receives any adjustments, allocations or distributions described in Regulations Section 1.704-l(b)(2)(ii)(d)(4), (5) or (6) which would cause the negative balance in such Unit Holder's Capital Account to exceed the sum of (1) its obligation to restore a Capital Account deficit upon liquidation of the Partnership, plus (2) its share of partnership minimum gain, plus (3) such Unit Holder's share of partner nonrecourse debt minimum gain, items of Partnership income and gain shall be specially allocated to such Unit Holder in an amount and manner sufficient to eliminate such excess negative balance in its Capital Account as quickly as possible. This Section 8.05(c) is intended to comply with the "qualified income offset" requirement and the alternative test for economic effect set forth in the Regulations and shall be interpreted consistently therewith.

This provision should satisfy the "qualified income offset" requirement m Treasury Regulations§ 1.704-l(b)(2)(ii)(d).

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[6] Any Investor Partner that is a general partner may have a DRO to the extent of his capital account deficit under state general partnership law if the Partnership's creditors are not fully repaid following liquidation. However, since any such DRO under state law would be contingent on the existence of a creditor's claim, the ORO would likely not be regarded as unconditional, and thus, would probably not satisfy the requirements of Treasury Regulations§ l.704-l(b)(2)(ii)(b)(3) for purposes of the primary economic effect test. See Treas. Reg. § 1.704-1(b)(2)(ii)(h). An Investor Partner that is a limited partner

should not have a DRO.

If all of the foregoing requirements are satisfied with respect to the alternative economic effect test, then allocations to the partners are treated as having substantial economic effect to the extent that any such allocation to a Partner does not cause or increase a deficit balance in such Partner's "capital account," in excess of the amount such partner is obligated to restore pursuant to a DRO. In making the determination regarding whether (and to what extent) a partner has a deficit capital account for purposes of this provision, a partner's "capital account" balance is reduced by certain allocations of loss and distributions that, as of the end of a fiscal year, are reasonably expected to be made as set forth in Treasury Regulations § l.704-l(b)(2)(ii)(d)(4)-(6). Section 2.01 of the Partnership Agreement incorporates this requirement in the Treasury Regulations in the definition of "Adjusted Capital Account Deficit" by providing that:

> With respect to any Unit Holder, the deficit balance, if any, in such Unit Holder's Capital Account as of the end of the relevant tax year, after giving effect to the adjustments required by this Agreement or the Code or Regulations as determined by the Managing Partner.

Although the specific situations referenced in the Treasury Regulations are not specifically reference in the Partnership Agreement, the general reference to the requirements of the Code and Treasury Regulations should be sufficient to treat the definition of Adjusted Capital Account Deficit as consistent with the adjustments to a partners' capital account that are required under Treasury Regulations § l.704-l(b)(2)(ii)(d)(3) when determining whether an allocation to a partner has substantial economic effect under the alternative economic effect test.

The Investor Partners' respective capital account balances will be reduced by the Special Allocations and, since liquidating distributions are required to be made in accordance with positive capital accounts, and the Partnership Agreement satisfies all of the other conditions of the alternative economic effect test set out in Treasury Regulations § l.704-l(b)(2)(ii)(d), the Investor Partners should bear economic loss as a result of the Special Allocations to the extent that such Special Allocations do not result in an Investor Partner having an Adjusted Capital Account Deficit.

Based on the foregoing, it seems that the Special Allocations to the Investor Partners should be treated as having economic effect under the alternative economic effect test set out in Treasury Regulations § 1.704-1(b)(2)(ii)(d), to the extent that such Special Allocations do not result in an Investor Partner having an Adjusted Capital Account Deficit.

2. Substantiality Test

In order for an allocation to satisfy the substantial economic effect test, such allocation must not only have economic effect, but such economic effect must be substantial. As a general rule, "the economic effect of an allocation (or allocations) is substantial if there is a reasonable possibility that the allocation (or allocations) will affect substantially the dollar amounts to be received by the partners from the partnership, independent of tax consequences." Treas. Reg. § l.704-l(b)(2)(iii)(a). However, the economic effect of an allocation is not regarded as substantial if: (i) it fails the Comparative Benefit Test (as described below); (ii) the allocation is regarded as a "shifting allocation" within the meaning of Treasury Regulations § 1.704-1(b)(2)(iii)(b); or (iii) the allocation is regarded as a "transitory allocation" within the meaning of Treasury Regulations § 1.704- I (b)(2)(iii)(c). The Comparative Benefit Test is described in Treasury Regulations § l.704-l(b)(2)(iii)(a) as follows:

> [A]t the time the allocation becomes part of the partnership agreement; (1) the after-tax economic consequences of at least one partner may, in present value terms, be enhanced compared to such consequences if the allocation (or allocations) were not contained in the partnership agreement, and (2) there is a strong likelihood that the after-tax economic consequences of no partner will, in present value terms, be substantially diminished compared to such consequences if the allocation (or allocations) were not contained in the partnership agreement.

An allocation is treated as a "shifting allocation" under Treasury Regulations § 1.704-1(b)(2)(iii)(b) if:

> *at the time the allocation becomes part of the partnership agreement, there is a strong likelihood that* - (1) The net increases and decreases that will be recorded in the partners' respective capital accounts for such taxable year will not differ substantially from the net increases and decreases that would be recorded in such partners' respective capital accounts for such year if the allocations were not contained in the partnership agreement, and (2) The total tax liability of the partners ... will be less than if the allocations were not contained in the partnership agreement (taking into account tax consequences that result from the interaction of the allocation . .. with partner tax attributes that are unrelated to the partnership).

(emphasis added). If at the end of a tax year in which a special allocation is made, the partners' capital accounts are the same as they would have been if a pro-rata allocation were made based on the partners' interests in the partnership and the partners' pay less aggregate tax in such year, then there is a presumption that such result was substantially likely at the time the allocation became part of the partnership agreement and therefore, that such allocation is a "shifting allocation." Id.

An allocation is treated as a "transitory allocation" under Treasury Regulations § 1.704-1(b)(2)(iii)(c) if a partnership agreement provides for the possibility that an allocation will be largely offset by an offsetting allocation, and, at the time the original allocation becomes part of the partnership agreement, there is a strong likelihood that:

> The net increases and decreases that will be recorded in the partners' respective capital accounts for the taxable years to which the allocations relate will not differ substantially from the net increases and decreases that would be recorded in such partners' respective capital accounts for such years if the original allocation(s) and offsetting allocation(s) were not contained in the partnership agreement, and (2) The total tax liability of the partners (for their respective taxable years in which the allocations will be taken into account) will be less than if the allocations were not contained in the partnership agreement (taking into account tax consequences that result from the interaction of the allocation (or allocations) with partner tax attributes that are unrelated to the partnership).

If at the end of the year in which an offsetting allocation is made, the partners' capital accounts are substantially the same as they would have been if the original and offsetting allocations had not been made (i.e. if all allocations were instead made pro-rata based on the partners' interests in the partnership) and the partners' pay less aggregate tax in such years, then there is a presumption that such result was substantially likely at the time the original allocation became part of the partnership agreement and, thus, that such allocation is a "transitory allocation." Id. There is also a presumption that a series of allocations is not transitory, if "at the time the allocations become part of the partnership agreement, there is a strong likelihood that the offsetting allocation(s) will not, in large part, be made within five years after the original allocation(s) is made." Id. Moreover, in evaluating whether allocations are transitory in nature, the fair market value of partnership property is deemed to equal its basis and, therefore, "there cannot be a strong likelihood that the economic effect of an allocation (or allocations) will be largely offset by an allocation (or allocations) of gain or loss from the disposition of partnership property." Id. As a result, the possibility that deductions for IDCs, depletion, depreciation or amortization, which are specially allocated, will have to be recaptured in a future year upon the partnership's disposition of the property generating such deductions should not cause any such special allocation to treated as a transitory allocation. Treas. Reg.§ 1.704-l(b)(S)(Examples l(vi) and l(xi)).

The economic effect of the Special Allocations should be treated as substantial, within the meaning of Treasury Regulations § 1.704-1(b)(2)(iii), because the Special Allocations should substantially affect the amounts to be received by the partners from the partnership without regard to tax consequences, since the Special Allocations will reduce the Investor Partners' capital accounts, which will also reduce their interests in the assets of the Partnership. Moreover, the Special Allocations should not be treated as "insubstantial" under the Comparative Benefit Test and should not be regarded as "shifting" or "transitory" allocations, because: (i) they should not result in a reduction of the Partners' aggregate tax liability;7 (ii) such Special Allocations should result in the Partners' relative capital account balances being different than what they would have been if the Special Allocations were not made; and (iii) none of the other Partnership allocations should offset the Special Allocations so as to cause the Partner's respective capital accounts to be roughly equivalent to what they would have been if the Special Allocations were not contained in the Partnership Agreement and the Applicable Deductions had instead been allocated pro-rata based on the Partners' interests in the Partnership.

The Internal Revenue Service (the "Service") has addressed the circumstances in which special allocations of JDC deductions have economic effect that is substantial. In Treasury Regulations§ l .704-l(b)(5)(Example 19(ii)), one partner contributed cash and another partner contributed an oil and gas lease of equal value and which had a basis equal to its value. The cash partner agreed to fund all future drilling and development expenses and was specially allocated all IDCs and other deductions associated with the development activity as well as all partnership income to the extent of his capital contributions. If sufficient future partnership income existed, then the special allocation of the IDCs would be fully offset and would restore the partner's capital account to its original balance. Notwithstanding the potential offsetting nature of these special allocations, the Service determined that the economic effect of such special allocations was substantial and noted that "(b]ecause the partnership's drilling activities [were] sufficiently speculative, there [was] not a strong likelihood at the time the disproportionate allocations of loss and deduction to [the cash partner were] provided by the partnership agreement that the economic effect of such allocations [would] be largely offset by allocations of income." Id. See also, IRS Field Service Advice 648 (11/12/1993). Accordingly, based on the rationale of this Regulation it seems that potential future income allocations to offset special

[7] In drafting this opinion, as discussed above in Section II, we have assumed that the Partners would not have any tax attributes that would result in the Special Allocations reducing the aggregate tax liability of the Partners for any given year or years below the amount of aggregate tax which would be owed by the Partners if the Special Allocations were instead allocated among the Partners, pro- rata, based on their respective interests

in the Partnership. Such an assumption is necessary, as the identity of the Investor Partners is not yet known and even when the identity of such Investor Partners is known, it is unlikely that the Partnership will be able to ascertain information regarding each Partner's particular tax attributes.

allocations ofIDC deductions would not likely be regarded as shifting or transitory allocations due to the speculative nature of the potential future offsetting allocations.

As with the partnership in Treasury Regulations§ 1.704-l(b)(S)(Example l 9(ii)), the Partnership is engaging in speculative oil and gas drilling and development activities involving uncertain future returns. However, unlike the partnership agreement in such Example, the Partnership Agreement contains no special allocation of future income that would offset the Special Allocations to the Investor Partners, as in the Partnership Agreement, future income is generally allocated pro-rata among the Partners, based on their respective Units owned.[8] This pro-rata allocation of future income would not restore the Investor Partners' respective capital accounts to where they would have been if the Special Allocations had not been made. As a result, since the special allocations of IDC and other deductions in Treasury Regulations§ 1.704-l(b)(S)(Example 19(ii)) had substantial economic effect due to the speculative nature of oil and gas development activities even though there was a potential for future offsetting special allocations of income, the Special Allocations of the Applicable Deductions in the Partnership Agreement should also have economic effect that is substantial, because the Partnership is engaged in the same type of drilling and development activities and the Partnership Agreement contains no potential future offsetting income allocations. Accordingly, since the allocations in Treasury Regulations § 1.704-l(b)(S)(Example 19(ii)) were not regarded as transitory or shifting allocations, the Special Allocations should also not be classified in such manner.

Due to the "value equals basis rule" of Treasury Regulations § 1.704- 1(b)(2)(iii)(c), the Special Allocations should not be regarded as transitory allocations even if the working interests were sold for a gain which would be allocated to the Partners who had previously received Special Allocations of the Applicable Deductions. See also Treas. Reg.§ 1.704-l(b)(S)(Examples l(vi) and (xi)).

As discussed above, it seems that the Special Allocations to the Investor Partners, should be treated as having economic effect under the alternative economic effect test set out in Treasury Regulations § 1.704-1(b)(2)(ii)(d), to the extent that such Special Allocations do not result in an Investor Partner having an Adjusted Capital Account Deficit.

[8] The Partnership Agreement allows the Managing Partner to specially allocate future Profits and Losses of the Partnership in the event that there are not sufficient Applicable Deductions arising after the date that an Investor Partner is admitted to the Partnership so as to put such Investor Partner in substantially the same position as if all Partnership items of Applicable Deduction had been allocated among all of the Investor Partners, pro-rata, based on capital contributed. However, any such allocations would not offset the Special Allocations; instead, any such allocations would supplement the Special Allocations to achieve the economic result that is intended to be achieved through the

Special Allocations.

Based on the foregoing, to the extent that the Special Allocations have economic effect, such economic effect should be substantial within the meaning of Treasury Regulations § I.704-1(b)(iii).

3. Applicability of Substantial Economic Effect Test to Applicable Deductions

The Special Allocations that are the subject of this opinion, primarily involve JDC expense deductions, cost recovery deductions attributable to depreciation in connection with equipment and other physical property used in the drilling and development of the Wells, and depletion.

Generally, with regard to the admission of Investor Partners over a staggered timeframe, as Wells are being drilled generating IDCs, depreciation, and other Applicable Deductions, these deductions are allocated first to the initial Investor Partners. Subsequently, as additional Wells are drilled generating additional Applicable Deductions, such deductions are allocated to newly admitted Investor Partners as such Investor Partners are being admitted to the Partnership in accordance with Section 8.04 of the Partnership Agreement. Once all Investor Partners have been admitted to the Partnership, and all Special Allocations of Applicable Deductions have been made, the aggregate Applicable Deductions will generally be allocated among the Investor Partners on the basis of their respective capital contributions or number of Investor Partner units, as the case may be.

(a) *Depreciation Generally*

Equipment acquired in connection with drilling and equipping oil and gas wells is generally considered a capital asset under the Code and must be depreciated over its useful life under the rules of Code§§ 167 and 168. However, Code § 168(k) generally provides taxpayers with 100% expensing treatment for "qualified property" placed in service from 2017 through 2022 tax years ("OuaJified Depreciation Expense"). Beginning in 2023, through 2027, the percentage of Qualified Depreciation Expenses for "qualified property" that can be immediately expensed each year is reduced by 20% annually over the next five years until it is completely phased out.[9] Assets are generally "qualified property' if they have a depreciable recovery period of20 years or less, the taxpayer had not previously used the property and the property is acquired prior to January 1, 2027. Code § 168(k)(2). Depreciation expenses that are not Qualified Depreciation Expenses eligible for immediate expensing must be depreciated in accordance with a taxpayer's depreciation method and over the asset's recovery period.

[9] The allowances for applicable percentage for the following years are: 2022 = I00%, 2023 = 80%, 2024 = 60%, 2025 = 40%, 2026 = 20% and 2027 = 0% (the "Applicable Percentage"). Code §168(k)(6).

Based on the Tax Certificate: (i) neither the Partnership, nor any affiliate, has previously used any of the equipment that the Partnership will acquire for use in drilling or equipping the Wells; and (ii) all such equipment has a depreciable useful life of seven years. Accordingly, such equipment placed in service by the Partnership prior to January 1, 2027, in connection with drilling and equipping the Wells, should be eligible for expensing in the year such equipment is placed into service as Qualified Depreciation Expenses, based on the Applicable Percentage for such year. The portion of the basis in any depreciable equipment placed in service that exceeds the Applicable Percentage for a year, and is thus, not eligible to be treated as Qualified Depreciation Expenses for such a year, should be depreciable over seven years.

The Service has also addressed the circumstances in which special allocations of depreciation deductions will be respected under Code § 704(b). In Treasury Regulations § 1.704-l(b)(S)(Examples l(i)-(iv)), two partners contributed cash to a partnership which acquired a depreciable building. The partnership agreement provided that capital accounts were to be maintained in accordance with the requirements set out in the Treasury Regulations, but that liquidating distributions were to be made based on the partner's percentage interests. The Service concluded that a special allocation of the depreciation deductions entirely to one partner did not have substantial economic effect because, although the allocation would reduce such partner's capital account, the partners would still share equally on liquidation. Thus, such partner would not bear economic loss with respect to the depreciation deductions which were specially allocated because they would not reduce his interest in the assets of the partnership. On the other hand, the Service concluded that if liquidating distributions had been required to be made in accordance with positive capital accounts, then such special allocation would have had substantial economic effect because the partner receiving such allocation would have a reduced interest in the partnership's assets on liquidation as a result of the special allocation.

(b) *Depletion*

Lease Acquisition Costs for oil and gas properties are generally recovered through depletion allowances. On an annual basis, depletion is computed utilizing two separate computations, with the amount of the deduction to be claimed being the greater amount of the two methods, cost or percentage depletion. Percentage depletion is generally allowable only for wells generating production income in excess of operating costs. Percentage depletion is generally computed by multiplying the gross production income by a factor of fifteen percent (15%). Code § 613A. Cost depletion computations are more complex. The total Leasehold Acquisition Costs are multiplied by a percentage, which computes the allowable annual deduction. This percentage is computed with the numerator being the production for the current past twelve months (year) divided by the estimated total remaining recoverable barrels of oil at the beginning of the year, minus the numerator amount. See Treas. Reg. § 1.611-2. The estimated total remaining recoverable barrels of oil at the beginning of the year is usually derived from an annual reserve/engineering report. The above discussion of depletion allowances is intended to be a general treatment of computing allowable depletion allowances.

All depletion deductions with respect to oil and gas properties, in which a partnership holds a direct or indirect interest, must be computed by the partners separately rather than as a partnership. Code§§ 703(a)(2)(F), 613A(c)(7)(D) and 613A. There are requirements in the Treasury Regulations for how oil and gas partnership and the partners must compute depletion. Treasury Regulation § 1.704-1(b)(2)(iv)(k)(l)(1) provides "[i]n general the capital accounts of the partners will not be considered to be determined and maintained in accordance with the rules of this paragraph, (b)(2)(iv) unless such capital accounts are adjusted for depletion and gain or loss with respect to the oil or gas properties of the partnership in accordance with this paragraph (b)(2)(iv)(k)."

This section of the Treasury Regulations proscribes detailed requirements that must be satisfied with respect to capital account adjustments related to simulated computations of depletion, basis, gain, loss and other items.

Section 8.04(c) of the Partnership Agreement contains the following Special Allocation:

> "Pursuant to the provisions of the Code, all depletion deductions with respect to oil and gas properties in which the Partnership holds a direct or indirect interest, shall be computed by the Unit Holders separately rather than the Partnership. Simulated gain, simulated depletion and simulated losses shall be allocated among the Partners in accordance with Section 4.0l(c)."

Section 4.0l(c) of the Partnership Agreement further provides that:

> ... for purposes of computing the Capital Accounts of the Unit Holders only: *(i) Investor Partners will be allocated a share of the Partnership's adjusted tax basis in the Partnership's oil and gas properties in the proportion each Investor Partner's Capital Contribution bears to the aggregate Capital Contributions of all Investor Partners holding any class of Units* (notwithstanding the foregoing, the Unit Holders shall, at all times, be allocated those percentages of such adjusted tax basis as is necessary to insure that subsequent adjustments to each Unit Holder's Capital Account for allocations of simulated depletion,

simulated gain, and simulated loss do not lack substantial economic effect for purposes of Section 704(b) of the Code); (ii) the Unit Holders will be allocated simulated depletion, based upon cost or percentage depletion as the Managing Partner may elect, in the same percentages as the adjusted tax basis of the oil and gas properties is allocated, but not in excess of such adjusted tax basis, and the Unit Holders will be allocated simulated loss in proportion to each Unit Holder's distributable share of the total amount realized from the disposition of the oil and gas properties that represents a recovery of the Partnership's simulated adjusted tax basis in such properties; (iii) except as otherwise required by Section 704(c) of the Code, the amount realized by the Partnership from the taxable disposition of any oil and gas properties that represents recovery of the Partnership's simulated adjusted tax basis in the oil and gas properties shall be allocated to the Unit Holders in the same proportions as the aggregate adjusted tax basis of such properties was allocated to the Unit Holders; and (iv) the portion of the amount realized by the Partnership on its taxable disposition of the oil and gas properties that exceeds the simulated adjusted tax basis of such properties shall be allocated to the Unit Holders as part of the allocation of Profits in accordance with Section 8.02(a). *The Managing Partner may authorize a reallocation of the Partnership's adjusted tax basis in an oil and gas property in accordance with the requirements of Regulations. For purposes of this Section 4.OJ (c), simulated adjusted tax basis, simulated depletion, simulated gain, and simulated loss shall have the meanings set forth in Regulations Section 1.704-1(b). The foregoing rules regarding Capital Account adjustments for adjusted tax basis, simulated depletion, simulated gain, and simulated loss are intended to comply with the requirement of Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations.* (emphasis added).

The Partnership Agreement requires the Partnership to maintain its capital accounts in accordance with the requirements of Treasury Regulation § 1.704- 1(b)(2)(iv)(k). In addition, it also gives the Managing Partner broad authority to make corrective allocations of other Partnership items, in order to ensure that the Partnership's allocations related to depletion are consistent with Treasury Regulation § 1.704-l(b)(2)(iv)(k). Since the Investor Partners will be the only Partners contributing capital to the Partnership, the Special Allocation of the Partnership's adjusted tax basis in its oil and gas properties for purposes of computing depletion solely to the Investor Partners, in proportion to their respective capital contributions, should be treated as having substantial economic effect for purposes of Code § 704(b).

(c) *Intangible Drilling Costs*

The Service and the courts have specifically addressed the circumstances in which special allocations of IDC deductions will be respected for purposes of Code § 704(b). In Rev. Rul. 68-139, 1968-1 C.B. 311, the Service held that the partnership allocation rules under Code § 704 override the rules for allocating IDC deductions in Treasury Regulations§ 1.612-4 and thus, that the allocation oflDCs incurred by a partnership is made pursuant to the provisions of Subchapter K of the Code.[10] Thus, it seems clear that the validity of special allocations of IDC deductions is governed by Code§ 704. In *Allison v. US,* 701 F.2d 933 (Fed. Cir. 1983), a partner received a special allocation of IDC deductions based on his initial capital contribution; however, the court determined that such allocation could not be respected under Prior Treasury Regulations§ l.704-l(b)(2)(1964) since such partner did not bear the risk of loss with respect to such allocation because liquidating distributions were not required to be made in accordance with positive capital account balances. See also *Orrisch v. Commissioner,* 55 T.C. 395 (1970); *Estate of Carberry v. Commissioner,* 95 T.C. 65 (1990).

Conversely, in Rev. Rul. 68-139, the Service concluded, with little analysis, that special allocations oflDC deductions to partners who contributed the capital to fund such expenses/deductions should be respected for tax purposes since such special allocations had economic effect. Similarly, in PLR 8133021, the Service determined that a special allocation oflDC deductions to a partner who contributed cash to fund such deductions would be respected under Code § 704.[11] In upholding such special allocation, the Service held that "the allocation to [the partner] reduced his capital account and thereby reduced his claim to assets of [the partnership] upon its liquidation" and that "since [the partner] had the economic burden of these expenditures both during the operation and upon liquidation of [the partnership], the allocation to [the partner] under the partnership agreement has substantial economic effect under Section 704 of the Code." Id. The cases and rulings addressing the circumstances in which special allocations of IDC deductions have satisfied the requirements of Code § 704(b) have generally been decided based on whether the partner receiving such special allocations bears economic detriment as a result of such allocation. Thus, it seems clear that the substantial economic effect test under Code § 704(b) is the benchmark for determining whether special allocations of IDC deductions will be respected for federal income tax purposes.

Based on the authorities, it appears reasonable to conclude that our Partnership Agreement allocations have substantial economic effect, and the

[10] See also PLR 8133021. Additional support for treating IDC deductions as partnership items is found in Treasury Regulations§ 301.623l(a)(3)-l(a)(l)(iii).

[11] Although private letter rulings are not binding on the Service pursuant to Code § 6110(k)(3), the persuasive reasoning contained in the ruling may be considered by the Service or by the courts. *Buckeye Power v. United States,* 38 Fed. Cl. 154 (Ct. Cl. 1997).

Partnership's allocations of IDC deductions should satisfy the requirements of Code§ 704(b).

B. The Special Allocations Should Not Be Disallowed Under Code § 706(d) As Retroactive Allocations

As a general rule, Code§§ 704(a) and 761(c) allow partners, by agreement, to determine their relative distributive shares of partnership items for a taxable year and to retroactively reallocate such distributive shares for a taxable year, so long as the requirements of these provisions are satisfied. [12] However, the ability of partners to retroactively alter their distributive shares is substantially limited by the application of Code § 706(d), which provides that if during a partnership taxable year, there is a change in any partner's interest in the partnership, each partner's distributive share for such year must be determined by using any method prescribed by the Treasury Regulations which takes into account the varying interests of the partners during the year (the "Varying Interest Rule"). See Code§ 706(d)(l). The requirements of the Varying Interest Rule override the provisions of Code§§ 704(a) and 761(c), and thus, are controlling with respect to retroactive allocations ofloss to newly admitted partners. See Treas. Reg. § 1.704-1(b)(1)(iii); Committee Report, 1976 Tax Reform Act, P.L. 94-455 (October 4, 1976).[13] The Varying Interest Rule set out in Code § 706(d) prevents partnerships from retroactively allocating a full share of partnership items for a taxable year to persons who were partners for only a portion of the taxable year.[14] Therefore, as a result of the Varying Interest Rule, partnership deductions and losses that arise before a partner becomes a partner cannot be retroactively allocated to the incoming partner. See *Williams v. US.,* 680 F.2d 382 (5th Cir. 1982); *Richardson*

[12] In order for allocations to satisfy the requirements of Code § 704, such allocations must generally have substantial economic effect or be in accordance with the partners' interests in the partnership. In order for any retroactive changes to the partners' relative distributive shares for a taxable year to have effect under Code § 761(c), such changes must be agreed upon by the partners prior to the due date of the partnership's tax return for such year (without regard to extensions).

[13] The Committee Report was issued in connection with former Code § 706(c)(2)(B), which was the predecessor to current Code § 706(d).

[14] The Varying Interest Rule generally does not prevent partners who were partners for an entire taxable year from retroactively adjusting their respective distributive shares, provided that the rules under Code§§ 704(a) and 76l(c) are satisfied, unless the adjustments relate to additional capital contributions by such existing partners. See *Lipke v. Commissioner,* 81 T.C. 689 (1983); S. Rep. No.98-169(Vol. l)at219.

v. Commissioner, 693 F.2d 1189 (5th Cir. 1982); Rev. Rul. 77-310, 1977-2 C.B.
217.[15]

Under the Varying Interest Rule, the Treasury Regulations generally permit partners to account for their varying interests during a tax year based on either: (i) an interim closing of the books, whereby a partner is allocated his pro- rata share of only those items of partnership income, gain, loss, deduction and credit that arose during the actual period in which such partner held his partnership interest; or (ii) the proration method, whereunder the partnership allocates the distributive share of partnership items among the partners based on their pro-rata share of such items for the entire taxable year and then adjusts each partner's distributive share of such items based the portion of the tax year in which each partner was a partner. See Treas. Reg. § 1.706-4(c)-(d). However, there are certain exceptions to these permissible methods which are designed to prevent an incoming partner from being allocated losses and deductions which arise before such partner is admitted to the partnership.[16] The most relevant of these exceptions provides that if a partnership uses the cash method of accounting, then certain items such as interest, taxes, payments for services or for the use or property, are required to be allocated to each day in which the item was economically accrued (the "Cash Accounting Rule"). See Code § 706(d)(2). The deduction for such items is then allocated among the partners based on their interests in the partnership over the entire accrual period, rather than their interests on the date of payment. Id. The Cash Accounting Rule is designed to prevent a newly admitted partner from claiming a share of deductions that accrued prior to their admission to a partnership merely because the payment associated with such deduction is made after the admission of the new partner. The Partnership will use the cash method of accounting and may have cash basis items of Applicable Deduction that are subject to the Cash Accounting Rule. However, Section 8.04(d), (e) of the Partnership Agreement provides that the Special Allocations will only be made to an Investor Partner from items of Applicable Deduction "arising on or after the date on which such Investor Partner was admitted to the Partnership" and further provides that "a deduction shall not be deemed to arise on or after the date when an Investor Partner is admitted to the Partnership to the extent that the Cash

[15] In addition to the Varying Interest Rule, the courts have also applied the assignment of income doctrine to prevent partnerships from retroactively allocating partnership income or deductions to a newly admitted partner if the income/deductions arose before such partner was admitted to the partnership. See *Williams v. U.S.,* 680 F.2d 382 (5th Cir. 1982); *Hawkins v. Commissioner,* 713 F.2d 347 (8th Cir. 1983); *Snell v. US.,* 680 F.2d 545 (8th Cir. (1982).

[16] For example, if the proration method is used, certain extraordinary items are required to be allocated among the partners based on their percentage interests on the day that such items are taken into account. See Treas. Reg. § l. 706-4(e)(1). In addition, if items

are taken into account by a lower-tier partnership, then, for purposes of the Varying Interest Rule, they are deemed to be taken into account by the upper-tier partnership on the same date. See Code§ 706(d)(3); Rev. Rul. 77-311, 1977-2 C.B. 218. Moreover, the Cash Accounting Rule, described below in greater detail, allocates certain cash basis items to the periods in which such items accrued, without respect to when payment may have been made with respect to such items. See Code§ 706(d)(2).

Accounting Rule in Code§ 706(d)(2) attributes such deduction to any period prior to the admission of such Investor Partner." Accordingly, since the Special Allocations of post-admission Applicable Deductions to an Investor Partner cannot be made from any items of Applicable Deduction which the Cash Accounting Rule attributes to a period prior to the date on which such Investor Partner is admitted to the Partnership, the Special Allocations should not be regarded as retroactive allocations based on the operation of the Cash Accounting Rule.

As a result of the Varying Interest Rule of Code § 706(d), it seems clear that the Partnership cannot permissibly allocate any Applicable Deductions that arose prior to the admission of an Investor Partner to such Investor Partner. Accordingly, under either of the permissible methods discussed above for applying the Varying Interest Rule, the later admitted Investor Partners would be allocated a disproportionately low percentage (based on their relative capital contributions) of Applicable Deductions. Such result would occur because they would be partners for less time than the earlier admitted Investor Partners and could not be allocated deductions that accrued prior to their admission as a partner; whereas the earlier admitted Investor Partners would be allocated their pro-rata share of all Applicable Deductions. As discussed above in Section I hereof, the Partnership believes that such a result would be inequitable since all Investor Partners' capital contributions will be expended very soon after such contributions are received by the Partnership to generate the Applicable Deductions. Since the Varying Interest Rule prohibits the Partnership from allocating to the later admitted Investor Partners any Applicable Deductions arising prior to their admission, the Partnership intends to use the Special Allocations to come as close as possible to allocating all Applicable Deductions among the Investor Partners proportionately based on relative capital contributions. The Partnership will do this by making Special Allocations of Applicable Deductions to a new Investor Partner which arise after he is admitted to the Partnership, and successively as later Investor Partners are admitted, until the aggregate Applicable Deductions allocated to each Investor Partner is, to the greatest extent possible, equal to each Investor Partner's proportionate share of the combined total of all Applicable Deductions. The Special Allocations of the Applicable Deductions to an Investor Partner relate only to Applicable Deductions accruing on or after such Investor Partner is admitted to the Partnership. Under the Partnership Agreement, an Investor Partner cannot be specially allocated any Applicable Deductions which accrue before an Investor Partner is admitted. If there are insufficient Applicable Deductions arising after the admission of an Investor Partner, the Special Allocations cannot be fully made.

The Special Allocations of post-admission Applicable Deductions to the later admitted Investor Partners are intended, to the extent that sufficient Applicable Deductions are available, to put such Investor Partners in substantially the same position as they would have been had retroactive loss allocations of the Applicable Deductions been permitted and all Applicable Deductions were allocated proportionately to all

Investor Partners based on capital contributed.

However, while retroactive loss allocations to new partners are barred by the Varying Interest Rule under Code § 706(d), Special Allocations of post-admission Partnership items of Applicable Deduction to the later admitted Investor Partners should not be prohibited by this rule. The Varying Interest Rule generally does not focus on the manner in which a partnership allocates items of deduction that arise after a partner is admitted to the partnership, but, instead, merely operates to prevent a partnership from retroactively allocating items that arose prior to a partner's admission, to a newly admitted partner.[17]

The courts have considered the issue of whether special allocations of post- admission partnership items of deduction to a newly admitted partner that are designed to achieve the same economic results as retroactive allocations, should be respected under Subchapter K of the Code. In *Ogden v. Commissioner,* 84 T.C. 871 (1978), *ajf'd* 788 F.2d 252 (5th Cir. 1985) [18] the Tax Court seemingly acknowledged that such special allocations of partnership items arising after the admission of a partner to the new partner would be respected if the special allocations satisfied the substantial economic effect test under Code § 704(b). In *Ogden,* a partner acquired an interest in a partnership on November 14, 1978 and received a special allocation of the partnership's items of deduction arising after such date. Id. at 880-81. The newly admitted partner received no allocation of partnership losses arising prior to such date. Id. The special allocation of partnership losses arising in the post admission period resulted in the partner receiving approximately the same amount of losses that she would have been allocated if she had received a retroactive allocation of the partnership's total losses for the entire year based on her percentage of capital contributed. Id. at 883. The Tax Court stated that "[t]he Commissioner has conceded that [the partnership's] method of accounting for its partners' varying interests ... is acceptable .. . and does not result in a prohibited retroactive allocation of partnership losses to the petitioner." Id. at 882. As a result of this determination, the Tax Court advised that "the primary issue for decision is whether the

[17] The Varying Interest Rule does contain several anti-abuse rules (discussed above in footnote 15), which could apply to partnership items of deduction arising after the admission of a new partner, such as the Cash Accounting Rule and the rule relating to the timing of when items from lower- tiered partnerships must be taken into account for purposes of applying the Varying Interest Rule. However, such anti-abuse rules are designed to prevent partnerships from shifting deductions that were economically incurred during the pre-admission period, but were recognized for tax purposes after the admission of a new partner (e.g., based on the partnership's use of cash method), to the period after the new partner is admitted. Such anti-abuse rules should not apply to items of deduction which were economically incurred by a partnership after the admission of a new partner. Since the Applicable Deductions arising after the admission of a later admitted Investor Partner will result from the Partnership's business activities after such admission, the post-admission Applicable Deductions should not be recharacterized as pre-admission deductions by these anti- abuse rules and, thus, should not be within the scope of the Varying Interest Rule.

[18] In affirming the Tax Court, the Fifth Circuit adopted the Tax Court opinion nearly verbatim and cited the same authorities with respect to the retroactive allocation issues as were cited by the Tax Court.

partnership agreement's special allocation to the petitioner ... lacks "substantial economic effect" within the meaning of [S]ection 704(b)(2)." Id.

In considering whether the special allocation had substantial economic effect, the Tax Court, observed that "commentators have suggested that a plan of special allocations, such as that adopted in [the] partnership agreement, may be an effective way of achieving the same result as a retroactive allocation of losses to newly admitted partners, but without violating the prohibition of (S]ection 706(c)(2)(B)"[19] and cited a treatise on partnership taxation, which provided that:

> Another possible method of mitigating the prohibition in § 706(c)(2)(B) against retroactive allocations would be to use a special allocation either of deductions or of bottom line losses.
>
> For example, assume that AB partnership, using either the cash or accrual method of accounting, realizes income of $30,000 per month and pays expenses of $50,000 per month during 1981. Its loss for the year is $240,000. C becomes a one-third partner on December 1, 1981, by contributing cash to the partnership. The partners want to give C the benefit of one-third of the loss for the entire year, a deduction of $80 000. Under 706(c)(2)(B) it is not permissible to allocate to C any portion of the loss prior to December 1, I 981 and an interim closing of the books will not help. Using a proration based upon the time C was in the partnership, C's share of the loss would be 1/3 of 1/12 of $240,000, or $6,667.
>
> If the entire loss for December were specially allocated to C, C's share of the loss would increase from $6,667 to $20,000. Although this is still not the $80,000 C wanted, it is a substantial improvement. The remaining $60,000 of deduction might be given to C by a special allocation to C of the first $60,000 of partnership losses for 1982.
>
> *These special allocations should be permitted provided they meet the substantial economic effect test of§ 704(b)(2). Although the effect of this allocation is to undercut the retroactive allocation prohibition, there is no reason why it should not be given the same effect as any other special allocation in the absence of sham.*

Id. at 882-83 (citing 2 A. Willis, J. Pennell & P. Postlewaite, Partnership Taxation, sec. 87.05, at 87-14 to 87-15 (3d ed. 1981); fn. ref. omitted (emphasis added). With

[19] Former Code § 706(c)(2)(B) was the predecessor to Code § 706(d). This former Code Section also contained the Varying Interest Rule.

respect to this issue, the Tax Court further noted that "the Commissioner does not dispute that a special allocation may be used to achieve the same result as a retroactive allocation of the loss, but he points out that any such special allocation must have 'substantial economic effect' and argues that the allocation in this case did not have substantial economic effect" Id. at 883.

Although the special allocation in *Ogden* did not violate the Varying Interests Rule's prohibition on retroactively allocating losses to newly admitted partners, the Tax Court concluded that such special allocation could not be respected under Code § 704 because it lacked substantial economic effect, based on the fact that the partners did not have a DRO and that liquidating distributions were based on percentage interests, rather than in accordance with positive capital account balances. Id. at 885-86.

Although the special allocations in *Ogden* were found to be invalid, it was not because such special allocations were intended to undercut the Varying Interest Rule. In fact, the Tax Court tested the special allocation of the post-admission partnership deductions, which was designed to achieve the same result as a retroactive allocation to the newly admitted partner, in the same manner as any other partnership allocation, namely, under the substantial economic effect test. In doing so, the Tax Court seems to acknowledge that special allocations of post- admission deductions or losses to a newly admitted partner does not violate Code § 706(d) and is a legitimate means of achieving the same economic results as a retroactive allocation of losses to the newly admitted partner, provided that the special allocation of future deductions has substantial economic effect. In determining that the substantial economic effect test governed this special allocation of post-admission partnership deductions, the Tax Court observed that:

> Section 704(a) provides that a "partner's distributive share of income, gain, loss, deduction, or credit shall, except as otherwise provided in this chapter, be determined by the partnership agreement." Thus, partners have 'great latitude in determining themselves by their partnership agreement what their distributive shares will be.' *Goldfine v. Commissioner,* 80 T.C. 843, 849-850 (1983). However, the partners' ability to make special allocations of partnership items is not unlimited: [Code] [S]ection 704(b)(2) states that if "the allocation to a partner under the agreement of income, gain, loss, deduction, or credit (or item thereof) does not have substantial economic effect," it will be disregarded, and the partner's distributive share "shall be determined in accordance with the partner's interest in the partnership (determined by taking into account all facts and

circumstances)."

Id. at 881-82. Given the wide latitude afforded by the Code to partners in determining how to allocate their income and deductions among the partners, the

Tax Court appears to conclude that an allocation of post-admission deduction or loss to a newly admitted partner will be given effect for tax purposes under Code § 704(b), so long as the allocation has substantial economic effect and that such a special allocation will not be considered a retroactive allocation that is barred by Code § 706(d). See Id. at 882-86.

As in *Ogden,* the Special Allocations of the Partnership's Applicable Deductions to the Investor Partners are intended to put each Investor Partner in substantially the same economic position as they would have been had all Applicable Deductions, including those arising prior to each Investor Partner's admission to the Partnership, been allocated among the Investor Partners, pro-rata, based on their relative capital contributions. Moreover, like the special allocation of partnership losses in *Ogden,* the Special Allocations under the Partnership Agreement consist of only post-admission Applicable Deductions and none of the Special Allocations to an Investor Partner will arise from Partnership Applicable Deductions arising prior to the admission of such Investor Partner. Accordingly, as in *Ogden,* the Special Allocations of such post-admission items of Applicable Deduction to the Investor Partners should not be regarded as retroactive allocations which are barred by the Varying Interest Rule. In addition, as noted in *Ogden,* the Special Allocations in the Partnership Agreement should be respected under Code § 704(b) to the extent that such allocations have substantial economic effect.[20]

It is noteworthy that the post-admission Applicable Deductions that give rise to the Special Allocations will be nearly entirely funded by capital contributions from the Investor Partners receiving such Special Allocations. It would seemingly be inequitable to treat the Special Allocations of post-admission Applicable Deductions as retroactive allocations because such deductions will arise as a result of Partnership business activity occurring after the admission of the applicable Investor Partner and the cost of these deductions is funded by contributions of such Investor Partner. .See *Richardson v. Commissioner,* 76 T.C. 512 (1981), *ajf'd,* 693 F.2d 1189 (5th Cir. 1982) (holding that newly admitted partners who contributed capital to a cash basis partnership to pay previously accrued partnership expenses could be specially allocated the deductions attributable to such expenses since they arose after the admission of the new partners).[21]

Based on the foregoing, the Special Allocations to the Investor Partners (which allocate only post-admission Applicable Deductions to the Investor

[20] As discussed above in Section III(A) hereof, the Special Allocations should have substantial economic effect to the extent the Special Allocations should not result in an Investor Partner having an Adjusted Capital Account Deficit.

[21] The result in this case would likely differ today based on the adoption of the Cash Accounting Rule; however, the principle that newly admitted partners may be specially allocated deductions which arise after their admission to a partnership, especially when their contributions fund such deductions, remains important.

Partners) should not be regarded as impermissible retroactive allocations which are barred by the Varying Interest Rule of Code § 706(d).

Generally, with regard to the admission of Investor Partners over a staggered timeframe, as Wells are being drilled generating Intangible Drilling Costs, depreciation, and other Applicable Deductions, these deductions are allocated first to the initial Investor Partners. Subsequently, as additional Wells are drilled generating additional Applicable Deductions, such deductions are allocated to newly admitted Investor Partners as such Investor Partners are being admitted to the Partnership in accordance with Section 8.04 of the Partnership Agreement. Once all Investor Partners have been admitted to the Partnership, and all Special Allocations of Applicable Deductions have been made, the aggregate Applicable Deductions will generally be allocated among the Investor Partners on the basis of their respective capital contributions or number of Investor Partner units, as the case may be.

C. Partnership Income Allocated to the Investor Partners For Tax Years After Their Interests Are Converted From General To Limited Partner Interests Should Be Exempt From Self- Employment Tax

Net earnings from self-employment ("NESE") are generally subject to self- employment tax. See Code §§ 1401; 1402(b). NESE include all gross income derived by an individual from any trade or business (less allowable deductions which are attributable to such trade or business), plus his distributive share of income or loss from any trade or business carried on by a partnership of which he is a member; however, there are certain types of income that are excluded from NESE. See Code § 1402(a). One such exclusion provides that "there shall be excluded [from NESE], the distributive share of any item of income or loss of a limited partner, as such, other than guaranteed payments ... to that partner for services actually rendered to or on behalf of the partnership to the extent that those payments are established to be in the nature of remuneration for those services" (the "Limited Partner Exclusion"). See Code § 1402(a)(13). Accordingly, partnership income allocated to a general partner constitutes NESE, but partnership income allocated to a limited partner is not considered NESE (so long as it is not a payment for services) and, thus, is not subject to self-employment tax.

It is anticipated that the Investor Partners who are initially general partners will convert their entire interests to limited partner interests in a future tax year. Any net Partnership income allocated to the Investor Partners when they are general partners would constitute NESE and would be subject to self-employment tax. However, as discussed below, the Limited Partner Exclusion should apply to prevent Partnership income allocated to the Investor Partners for tax years after their interests are converted to limited partner interests from being regarded as NESE.

There are no authorities under Code § 1402(a)(l3) that directly address whether partnership income that is allocated to a partner following the conversion of such partner's interest from general to limited partner is excluded from NESE by the Limited Partner Exclusion. Even so, the available authorities suggest that a partner's status at the time of an income allocation will determine whether the Limited Partner Exclusion applies.

The language of Code§ 1402(a)(l3) itself suggests that partnership income allocated to any partner who is a limited partner at the time that such allocation is made does not constitute NESE (provided the income is not related to services provided by the limited partner). In fact, Code § 1402(a)(13) contains an unqualified statement that partnership income allocated to a limited partner (other than guaranteed payments made to limited partners for services) is excluded from NESE.

Further support for the position that the determination of general/limited partner status is made at the time of an income allocation is found in Proposed Treasury Regulations Section 1.1402(a)-2(h), which provides that, for purposes of the Limited Partner Exclusion, a partner is considered to be a "limited partner" unless he:

> (i) has personal liability (as defined in§ 301.7701-3(b)(2)(ii) of this chapter) for the debts of or claims against the partnership by reason of being a partner; (ii has authority (under the law of the jurisdiction in which the partnership is formed) to contract on behalf of the partnership; or (iii) participates in the partnership's trade or business for more than 500 hours during the partnership's taxable year.

This proposed regulation has not yet gone into effect and, therefore, it is not binding on the Service, but it provides insight into the factors that the Service considers important in determining "limited partner" status for purposes of Code
§ 1402(a)(l3). Based on this proposed regulation, a partner's status is to be determined for each partnership tax year, as an individual cannot be a limited partner if they participate in the partnership's business for more than 500 hours in a tax year. Under this definition, if a partner (who has no personal liability or authority to conclude contracts) performs more than 500 hours of services for a partnership in Year 1 and performs less than 500 hours of services in Year 2, then the individual would not be a "limited partner" for purposes of Code§ 1402(a)(13) in Year 1, but would be a "limited partner" for such purposes in Year 2. Accordingly, under this proposed regulation, partnership income allocated to such partner in Year I would constitute NESE, but such income would be excluded from NESE in Year 2 pursuant to Code§ 1402(a)(l 3) because the individual would be a

"limited partner" during such year. This proposed regulation (even though it is not binding) and the literal language of Code§ 1402(a)(13) suggest that income allocated to the Investor Partners for tax years after their interests are converted to limited partner interests should be treated as income allocated to a limited partner and be excluded from NESE based on the Limited Partner Exclusion.

In addition to the foregoing, the position that Partnership income allocations to the Investor Partners for tax years after the conversion of their interests to limited partner interests would be excluded from NESE is seemingly consistent with the purpose of Code § 1402(a)(13). The legislative history indicates that the Limited Partner Exclusion under Code § 1402(a)(13) was enacted to prevent limited partners, who were passive investors and not service providers, from accruing social security benefits which would otherwise result if their allocations of partnership income were subject to self-employment tax.[22] See Comm. Rpt. PL 95-216 (12/20/77).

In *Renkemeyer, Campbell & Weaver LLP v. Commissioner,* 136 T.C. 137 (2011), the Tax Court interpreted the legislative history of Code§ 1402(a)(13) in determining whether income allocated to service providing limited partners was eligible for the Limited Partner Exclusion. In *Renkemeyer,* several attorneys held state law limited partner interests in a partnership that provided legal services and asserted that the Limited Partner Exclusion applied to income allocations attributable to such limited partner interests. Nearly all of the income in question was generated by personal legal services rendered by the limited partners. The Tax Court noted that, accordingly to the legislative history, the Limited Partner Exclusion was enacted "to exclude for [Social Security] coverage purposes certain earnings which are basically of an investment nature." *Renkemeyer,* 136 T.C at 150 (citing H.R. 95-702 (Part 1), at 11 (1977). As a result, the Tax Court determined that the Limited Partner Exclusion was intended to apply to limited partners who merely investing in a partnership, but that such exclusion was not intended to apply to limited partners who received income from services performed in their capacity as partners. See Id. Consequently, the Tax Court held that the income allocated to the limited partners in *Renkemeyer* was not covered by the Limited Partner Exclusion because such income was generated by their personal services rather than a passive investment.

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[22] The Committee Report discussing the reasons for enacting this provision provides that:

> Your committee has become increasingly concerned about situations in which certain business organizations solicit investments in limited partnerships as a means for an investor to become insured for social security benefits. In these situations, the investor in the limited partnership performs no services for the partnership and the social security coverage whjch results is, in fact, based on income from an

investment. This situation is of course inconsistent with the basic principle of the social security program that benefits are designed to partially replace lost earnings from work. See Comm. Rpt. PL 95-216 (12/20/77).

The legislative history of the Limited Partner Exclusion and the *Renkemeyer* decision support the conclusion that any Partnership income allocated to the Investor Partners for tax years after they become limited partners should be excluded from NESE under Code § 1402(a)(I3). Unlike the partners in the *Renkemeyer* case, the Investor Partners will be limited partners (following conversion of their interests) who will be passive investors earning investment income from the Partnership. The Investor Partners will not perform any services for the Partnership and will have no role in its management and, thus, any Partnership income allocated to them should not constitute compensation for services. Accordingly, if self-employment tax were imposed on Partnership income allocated to the Investor Partners who are limited partners, then such Investor Partners would likely accrue Social Security benefits with respect to such income, which would be inconsistent with the purposes of the Limited Partner Exclusion, since such Investor Partners would be earning passive investment mcome.

Potential support for a contrary position is found in Treasury Regulations Section 1.469-2(c)(6)(i). As discussed above, this regulation contains an anti- abuse rule which will treat Partnership income allocated to the Investor Partners as "non-passive," even after their interests are converted to limited partner interests.[23] Since such income will be treated as "non-passive" under Code§ 469, an argument could be made that the Limited Partnership Exclusion should not apply to such income. However, in *Norwoord v. Commissioner,* T.C. Memo 2000- 84, the Tax Court concluded that the classification of a general partner's interest as passive or non-passive for purposes of Code § 469 has no relevance when determining whether allocations from the partnership are subject to self-employment tax. Thus, the classification of any Partnership income as "non- passive" for purposes of the "passive activity loss" rules should not prevent the Investor Partners from being treated as limited partners in tax years after their interests are converted from general to limited partner interests.

Accordingly, Partnership income allocated to the Investor Partners for tax years after their interests are converted from general to limited partner interests should be exempt from self-employment tax under Code§ 1402(a)(I3).

D. The Conversion from a General Partner Interest to a Limited Partner Interest in the Partnership Should be a Non-Taxable Event

Section 7.01 of the Partnership Agreement automatically converts an <u>Investor Partner's interest (Class</u> A Unitholder) who is a general partner <u>("GP")</u> in

[23] This would occur because the Investor Partners would have been allocated Partnership losses in prior years when they were general partners (as a result of the Partnership's IDCs) and such losses would have been treated as "non-passive" under the working interest rule of Code§ 469(c)(3)(A). As a result, future income of the Partnership will also be regarded as "non-passive" for purposes of Code § 469.

the Partnership to a limited partner ("LP") interest in the Partnership effective January 1st of the year following the year all capital contributions have been expensed by such Investor Partner. The Conversion of an Investor Partner's interest from a GP to an LP interest in the Partnership should not create a realization event for such Investor Partner.

Under Code § 721(a), no gain or loss is generally recognized when a partner contributes property to a partnership in exchange for an interest in such partnership. In Rev. Rul. 84-52, the Service addressed the specific issue of a general partnership converting into a limited partnership. The ruling held that, so long as the partnership continues its operations and the partners' percentage interests in the partnership remain unchanged the conversion does not result in a sale or exchange, and no gain or loss is recognized under Code § 721.[24]

Moreover, Rev. Rul. 84-52 specifically provides that the conversion of a general partner's interest into a limited partner interest in the same partnership generally does not trigger a recognition event. This non-recognition rule applies as long as the partner retains their interest in the same partnership, rather than exchanging it for an interest in a different entity. The principle extends to situations where a partner's share of Partnership liabilities in accordance with Code§ 1.752- l(e) remains unchanged following the Conversion .[25]

Additionally, Code § 708(a) and (b) govern whether a partnership is considered to have terminated for tax purposes. A partnership is treated as continuing if its business operations persist and at least some of the partners continue their involvement. Only if all business operations cease and no partners remain in the partnership is it considered terminated under Code § 708(b).

The Investor Partners will have their interest in the Partnership converted from GP to LP pursuant to the terms of Section 7.01 of the Partnership Agreement, and this conversion should not change their proportionate interest in the Partnership's profits, losses, or capital. The Partnership expects to continue operating its business, and the Investor Partners will retain their economic interest in the Partnership. The facts of this conversion as detailed in the Partnership Agreement are very similar to those outlined in Rev. Rul. 84-52. Accordingly, an Investor Partner's Conversion from a GP to a LP under Section 7.01 of the Partnership Agreement should be regarded as a non-taxable event under Code § 721(a).

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[24] This particular ruling was decided at a time when a tax partnership could technically terminate if there was a sale or exchange of 50% or more of the interest in the Partnership, within a 12-month period. This rule has since been repealed, so it is unlikely

that such ownership continuity would still be required.

[25] For purposes of this opinion, we have assumed that partnership liabilities have not been allocated in a different way after the conversion. If this occurs, then gain may be recognized.

E. Retention of Non-Passive Treatment of Income and Deductions Attributable to Working Interests for General Partners Converting to Limited Partner Status

Under Code § 469, passive activity loss limitations generally restrict a taxpayer's ability to deduct losses from passive activities to offset other income, such as salary or active business income. A passive activity is defined in Code § 469(c)(2) as any trade or business in which the taxpayer does not materially participate or any rental activity. However, Code§ 469(c)(3) specifically excludes a working interest in oil or gas properties from the definition of passive activity if the taxpayer holds the interest directly or through an entity that does not limit the taxpayer's liability with respect to that interest (the "Working Interest Exception"). As a result, a taxpayer who holds a working interest through a GP interest, can generally deduct any net loss allocations (deductions) from such Partnership that are attributable to such working interest against non-passive activity income, such as wages, active business income and investment income(" on-Passive Activity Income").

If an Investor Partner, who was originally a GP, treated any losses from the Partnership as non-passive activity losses solely due to the Working Interest Exception, then there are consistency rules following the Conversion of such an Investor Partner's interest from GP to LP under Section 7.01 of the Partnership Agreement.

Treas. Reg. § l.469-2(c)(6) provides a special rule ensuring that any net income realized by a taxpayer from a working interest in oil and gas property in a subsequent year will retain its active character if net losses from that working interest were treated as non-passive in prior taxable years solely pursuant to the Working Interest Exception. This characterization rule applies even if the taxpayer later converts from a GP (with unlimited liability) to an LP (with limited liability) in a partnership. In essence, if a taxpayer's net losses from the working interest were treated as non-passive activity losses in a prior year solely pursuant to the Working Interest Exception, then any future income from that working interest must similarly be treated as non-passive activity income.

In this case, the Investor Partners of the Partnership who are initially GPs are expected to deduct losses generated by the Partnership's working interest as non-passive solely pursuant to the Working Interest Exception, because such Investor Partners are not permitted to materially participate in the Partnership's business activity. In accordance with Treas. Reg. § l.469-2(c)(6), the Conversion of such an Investor Partner's Partnership interest from a GP to an LP should not impact the treatment of income or losses from the Partnership's working interest arising after the Conversion. Any such converting partner should be required to continue to treat any income or losses allocations from the Partnership as non- passive following such Conversion. The change in liability from unlimited (as GPs) to limited (as LPs) should not affect or alter the treatment or character of these deductions or income. With regard to allocated taxable income, income from the Partnership's oil and gas operations or possible gain on sale of Partnership assets would retain their character as non-passive activity income.

F. Partnership Income Allocated To The Investor Partners For Tax Years After Their Interests Are Converted From General To Limited Partner Interests Should Be Subject to the NII Tax.

Following the conversion of the Investor Partners' interests from general partner to limited partner, any income of the Investor Partners should be subject to the NII Tax. The NII Tax is a tax on net investment income earned by certain individuals, estates, and trusts. Code § 141l(a). In the case of an individual, the tax will be imposed on the lesser of (1) the Partner's net investment income or (2) the amount by which the Partner's modified adjusted gross income exceeds $250,000 (if the Partner is married and filing jointly or a surviving spouse), $125,000 (if the Partner is married and filing separately) or $200,000 (in any other case). Code § 1411(b). In the case of an estate or trust, the tax will be imposed on the lesser of (1) undistributed net investment income, or (2) the excess adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins.[26]

For purposes of the NII Tax, "net investment income" generally includes a taxpayer's net income from interest, dividends, royalties, annuities, rents, certain securities or commodities trading related businesses and net income from businesses in which the taxpayer does not materially participate, under the Code § 469 (the passive activity loss rules).[27]

During the years in which an Investor Partner is classified as a general partner, the income/loss generated from the Partnership's business should not be considered from a passive activity for purposes of Code § 469(c)(3)[28], even though the Investor Partners will not participate in the operations or management of the Partnership, as Section 5.01 of the Partnership Agreement vests all management and operational control over the Partnership with the Managing General Partner. After conversion of an Investor Partner's Class A Units from general to limited partner, the Working Interest Rule should no longer apply, since after such time, such Investor Partner will hold its working interest through a limited partnership interest, which limits its liabilities for obligations of the Partnership. Accordingly, following such conversion, "net investment income" should include an Investor Partner's allocable share of the Partnership's income and income/gain realized by <u>such Investor Partner should be</u> subject to the NII Tax.

[26] See Code§ 141 l(a).
[27] See Code§ 141 l(c).
[28] Under Code§ 469(c)(3)(A), a passive activity for purposes of Code§ 469 "shall not include any working interest in any oil and gas property which the taxpayer holds either directly or through an entity which does not limit the liability of the taxpayer with respect to such interest" (the "Working Interest Rule").

G. Reimbursement of Preformation Expenses Should be Respected in Accordance with their Form and Should Not be Treated as a Capital Contribution or Disguised Sale.

If a partner (or an affiliate thereof) incurs expenses on behalf of a partnership, then the tax treatment of such expenses generally depends on the agreement of the partners and the partnership as to whether such amounts will be added to such partner's capital account or reimbursed by the partnership. To the extent such expenses are not reimbursed by the partnership, then they would generally be treated as capital contributions to the partnership. Capital contributions from a partner to a partnership are generally non-taxable.[29] If a partner/partnership determines that such expenses were not incurred in the partner's capacity as a partner of the partnership, and the partner is not receiving capital account credit for payment of such expenses of the partnership, then the parties could instead treat these expenses as incurred by the partner in a capacity other than as a partner under Code § 707(a)(l). In such case, the reimbursement of the partner for such expenses should be treated as a payment to a third-party and be deductible or capitalizable by the partnership based on the nature of such expense reimbursed.

Another issue that can arise anytime pre-formation expenses are reimbursed by a partnership shortly after formation, is a potential disguised sale of property to/from the partnership due to the contemporaneous transfers. In a "disguised sale" of property, there must generally be a "transfer of property (excluding money or an obligation to contribute money) by a partner to a partnership and a transfer of money or other consideration ... by the partnership to the partner."[30] A contribution of cash and distribution of cash generally does not trigger a disguised sale of property.[31]

The disguised sale rules have an express exception under Treas. Reg. § <u>1.704-4 for reimbursement of</u> certain preformation expenses.[32]

[29] See generally Code § 721.
[30] A disguised sale can also arise when a partner contributes money or property to a partnership and a partnership distributes property to a partner.
[31] Such transfer could be treated as the disguised sale of a partnership interest; however, the IRS has withdrawn guidance on this issue, so we offer no opinion on this issue.

[32] Exception for reimbursements of preformation expenditures.

> *(])In general.* A transfer of money or other consideration by the partnership to a partner is not treated as part of a sale of property by the partner to the partnership under §1.707-3(a) (relating to treatment of transfers as a sale) to the extent that the transfer to the partner by the partnership is made to reimburse the partner for, and does not exceed the amount of, capital expenditures that-

(i) Are incurred during the two-year period preceding the transfer by the partner to the partnership; and

In the present case, the Partnership will only accept cash contributions from the Investor Partners and the Class B Unit Holders will not make any capital contributions. The Partnership will make no "in-kind" distributions to any Partner. Section 3.01 of the Partnership Agreement expressly provides that "KOC and/or its Affiliates may incur preformation expenses prior to the formation of the Partnership and, as such, shall be entitled to reimbursement of said expenses."[33] KOC and the Managing Partner (and their Affiliates) will receive a cash payment from the Partnership for such amounts. In order to have a disguised sale of property, there must generally be a "transfer of property (excluding money or an obligation to contribute money)" to either to the Partnership or to a Partner.

According to the Tax Certificate, the Partnership will not accept or make non-cash contributions/distributions of in-kind property, and no Partner or any other related party will receive an increase in their capital accounts for incurring preformation expenditures on behalf of the Partnership. Instead, KOC, the Managing Partner or any such Affiliates incurring such preformation expenses, will be reimbursed with a cash payment from the Partnership, which should be treated as a payment under Code § 707(a) to a person other than a partner and deductible or capitalizable based on the nature of the expenditure.

Based on the forgoing, the Partnership's proposed treatment of the Partnership reimbursing KOC or its affiliates for certain pre-formation expenses should be treated in accordance with its form and should not be treated as a capital contribution to the Partnership or disguised sale of property.

IV. Opinion and Conclusion

Based upon the facts and analysis set forth in more detail above and subject to the limitations, qualifications, assumptions and caveats set forth herein, we are of the opinion that: (i) the Special Allocations to the Investor Partners should be regarded as having substantial economic effect to the extent that the Special Allocations do not result in an Investor Partner having an Adjusted Capital

(ii) Are incurred by the partner with respect to-

(A) Partnership organization and syndication costs described in section 709; or

(B) Property transferred to the partnership by the partner, but only to the extent the reimbursed capital expenditures do not exceed 20 percent of the fair market value of such property at the time of the transfer (the 20-percent limitation). However, the 20-percent limitation of this paragraph (d)(l)(ii)(B) does not apply if the fair market value of the transferred property does not exceed 120 percent of the partner's adjusted basis in the transferred property at the time of the transfer (the 120-percent test). This paragraph (d)(l)(ii)(B) shall be applied on a property-by-property basis, except that a partner may aggregate any of the transferred property under this paragraph (d)(l) to the extent-

[33] See also Section 5.13 of the Partnership Agreement.

Account Deficit, and therefore, to such extent, the Special Allocations should be respected under Code § 704(b); (ii) the Special Allocations to the Investor Partners should not be regarded as retroactive allocations, which are barred by Code § 706(d); (iii) Partnership income allocated to the Investor Partners for tax years, after their interests are converted from general to limited partner interests should be exempt from self-employment tax under Code § 1402(a)(13); (iv) the Conversion of an Investor Partner's Partnership interest should not generate gain or loss to such Investor Partner; (v) an Investor Partner who undergoes a Conversion and previously treated income and deduction allocations from the Partnership as not from a passive activity solely due to Treas. Reg. § 1.469-2(c)(6) prior to the Conversion should be required to treat any income or deduction allocations from the Partnership after the Conversion as not from a passive activity for purposes of Code § 469; (vi) Partnership income allocated to the Investor Partners (as defined below) during a year in which they are general or limited partners, should be subject to the NII Tax; and (vii) the Partnership's reimbursement of preformation expenses incurred by KOC or its Affiliates on behalf of the Partnership should be respected in accordance with their form, not treated as a capital contribution or disguised sale of property.

In rendering our opinion, we have examined the Transaction Documents and the Tax Certificate. In reaching the conclusion described above, we have assumed that, if challenged, the arguments and facts in support of these conclusions will be properly argued to the Service and, if necessary, to courts of competent jurisdiction, and decided based on current law and administrative guidance and exercising reasonable judgement after full consideration of the applicable facts. In rendering our opinion, we have considered the applicable provisions of the Code, Treasury Regulations and Proposed Treasury Regulations promulgated thereunder, pertinent judicial authorities, interpretative rulings of the Service and such other authorities as we have considered relevant. It should be noted that statutes, regulations, judicial decisions and administrative interpretations are subject to change at any time and, in some circumstances, with retroactive effect. Any change in the authorities upon which our opinion is based, could materially affect our conclusions. However, we assume no obligation to revise or supplement this opinion if any subsequent change were to occur.

The opinions rendered herein are issued in accordance with Circular 230. We affirm, notwithstanding anything to the contrary in this opinion, that we have complied with all the requirements of Section 10.37 of Circular 230.

This opinion has been prepared for the sole benefit of the addressee and we have not entered into any compensation or referral arrangement with any person other than the addressee.

v ftL,

Bodman PLC

Exhibit E

Subscription Application and Agreement

King Operating Partners III, LP

Continue to Next Page

SUBSCRIPTION DOCUMENTS

KOPX

OIL & NATURAL GAS DRILLING PROGRAM

$125,000,000

ACCREDITED INVESTORS ONLY

Continue to Next Page

SUBSCRIPTION DOCUMENTS – ALL INVESTORS

Please read the Confidential Private Placement Memorandum of King Operating Partners III, LP (the "Partnership"), dated October 29, 2024, supplemented on April 16, 2025, and all exhibits thereto (collectively, the "Memorandum"), in their entirety carefully before deciding to subscribe. The Offering described in the Memorandum (the "Offering") is limited to investors who qualify as "Accredited Investors" as defined in Rule 501 of Regulation D under the Securities Act Of 1933, as amended. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Memorandum.

Each prospective investor should examine the suitability of an investment in the Partnership in the context of his, her, or its own needs, investment objectives, and financial capabilities and should make his, her, or its own independent investigation and decision as to the suitability of the investment. Each prospective investor is also encouraged to consult with his, her, or its business, tax, and/ or legal advisor regarding the risks and merits of an investment in the Partnership.

COMPLETION INSTRUCTIONS – ALL INVESTORS

1) Read Memorandum. Read the Memorandum and all exhibits thereto and request and review any additional information or documents you believe are necessary or advisable in order for you to understand the terms of the Offering, the proposed plan of the business, and the risks of an investment in the Partnership.

2) Read and Complete Subscription Agreement. This Subscription Agreement sets forth the terms and conditions you must agree to in order to subscribe for a Partnership Interest. It includes an arbitration clause. All investors must acknowledge the terms and restrictions of the offering and make certain representations and warranties to the Managing General Partner. Read and complete subscription price and number of Units, indicate whether you are investing as an Additional General Partner or as a Limited Partner, then sign and date the signature page of the Subscription Agreement and fill out the attached Form W-9. Please be aware that by signing the Subscription Agreement signature page you agree to be bound by the Subscription Agreement, if and when your subscription is accepted by the Managing General Partner[1].

3) Read and Sign Limited Partnership Agreement. Read the Limited Partnership Agreement attached as Exhibit A to the Memorandum and then sign the Limited Partnership Agreement Signature Page <u>in this Subscription Agreement</u>. Be aware that by signing the Limited Partnership Agreement Signature Page, you agree to be bound by the terms of the Limited Partnership Agreement (if and when your subscription is accepted by the Managing General Partner).

4) Read and Complete the Investor Questionnaire. Please ensure that the information you provide is true, complete, and correct in all respects.

5) Provide Documentation of Accredited Investor Status. Please obtain the below documentation and send such documentation via email to partners@kingoperating.com. Failure to timely provide satisfactory documentation of accredited investor status may delay your subscription or result in your subscription being rejected by the Managing General Partner.

a. Confirmation from InvestReady.com, verifyinvestor.com, or parallelmarkets.com<u>; OR</u>
b. Documentation evidencing your status from one of the following qualified professionals: (i) A registered broker-dealer, as defined in the Securities Exchange Act of 1934; (ii) An investment adviser registered with the Securities and Exchange Commission; (iii) A licensed attorney in good standing under the laws of the jurisdictions he or she is admitted to practice; or (iv) A certified public accountant registered and in good standing under the laws of his or her residence or principal office.

6) Wire Investment. Wire investment funds to secure your subscription as follows:

Oakwood Bank (now a part of b1 Bank) 17808 Dallas Parkway Dallas, TX 75287 (469) 687-2200	Routing: 111907490 Account: 20126262 Beneficiary: King Operating Partners III, LP

If you are sending a physical check, please make it payable to King Operating Partners III, LP, located at 15301 Dallas Parkway, Suite 900, Addison, Texas 75001, and send via a carrier with tracking ability to ensure delivery.

7) Download Completed Document. When prompted at the end of the DocuSign process, download an e-copy of your documents for your records.

If you have questions or need help completing the documents, please notify your King representative. Alternatively, you can call or email for help at partners@kingoperating.com or (214) 420-3000.

[1] The Managing General Partner reserves the right to withdraw the Offering, to sell all offered Partnership Interests, to sell more or less than the offered Partnership Interests, or terminate the Offering at any time.

INVESTOR QUESTIONNAIRE – ALL INVESTORS

The purpose of this Investor Questionnaire is to provide information to the Partnership regarding your qualifications to purchase Units being offered pursuant to the Memorandum. This Investor Questionnaire is accompanied by a Subscription Agreement which, when signed by you, will confirm to the Partnership that the information provided in this Investor Questionnaire is complete, accurate, and correct and may be relied upon by the Managing General Partner in connection with your purchase of Units. Your answers will be kept confidential by the Managing General Partner. However, by signing the accompanying Subscription Agreement, you agree that the Managing General Partner may present your Investor Questionnaire, Subscription Agreement, and other subscription documents to those parties as it deems appropriate if called on to establish the Partnership's entitlement to a private offering exemption under the Securities Act of 1933, as amended (the "**Securities Act**"), or any applicable state securities law. If you have any questions concerning this Investor Questionnaire, please call the person from whom you received it or email partners@kingoperating.com.

FORM OF OWNERSHIP – ALL INVESTORS

Account Type:	Additional Documentation Required
☐ Individual	
☐ Joint Tenants in Common	
☐ Joint Tenants with Right of Survivorship (JTWROS)	
☐ Revocable Trust	Certificate of trust or governing trust documents
☐ Irrevocable Trust	Certificate of trust or governing trust documents
☐ Estate	Documents evidencing individual(s) authorized to act on behalf of estate
☐ Custodial ☐ UGMA: State of _____ ☐ UTMA: State of _____	None
☐ Corporation ☐ C Corp ☐ S Corp	Articles of Incorporation or Certificate of Formation
☐ LLC (Limited Liability Company)	LLC Operating Agreement or LLC Resolution
☐ Partnership	Partnership Certification of Powers of Certificate of Limited Partnership
☐ Non-Profit Organization	Articles of Incorporation or Certificate of Formation

INVESTOR INFORMATION – FOR ALL INVESTORS

OWNER (Individual or Entity)

Title (if Individual): ☐ Mr. ☐Mrs. ☐Ms. ☐M.D. ☐Ph.D. ☐D.D.S. ☐J.D

NAME OF INDIVIDUAL **OR** ENTITY

SOCIAL SECURITY **OR** TAX IDENTIFICATION NUMBER

DATE OF BIRTH (if Individual)

RESIDENCE ADDRESS **OR** BUSINESS ADDRESS

CITY

STATE

ZIP CODE

PRIMARY TELEPHONE

SECONDARY TELEPHONE

EMAIL

JOINT OWNER *(if applicable – Individual Only)*

Title (if individual): ☐ Mr. ☐Mrs. ☐Ms. ☐M.D. ☐Ph.D. ☐D.D.S. ☐J.D.

NAME OF INDIVIDUAL

SOCIAL SECURITY OR TAX IDENTIFICATION NUMBER

DATE OF BIRTH

RESIDENCE ADDRESS

CITY

STATE

ZIP CODE

PRIMARY TELEPHONE

SECONDARY TELEPHONE

EMAIL

BENEFICIAL OWNERSHIP OF ENTITY – FOR ENTITY INVESTORS ONLY

We are required to identify and verify the identity of each individual who will control or will be a beneficial owner of the Partnership Interest if this subscription is accepted. This Section should be completed ONLY IF the subscriber is a "legal entity," which means a corporation, limited liability company, or any other entity that is created by the filing of a public document with a Secretary of State or similar office, a general partnership, a trust, and any similar entity formed under the laws of the United States or a foreign jurisdiction. A legal entity does not include a natural person acquiring a Partnership Interest for their own account or in the name of a sole proprietorship. In this Section, beneficial owner of an account means an individual who (1) directly or indirectly through any contract, arrangement, understanding, relationship or otherwise, will own 25% or more of the Partnership Interest or 25% or more of the equity interests of a legal entity subscriber; or (2) will have a level of control over, or entitlement to, the Partnership Interest that, as a practical matter, enables the individual, directly or indirectly, to control, manage or direct the Partnership Interest. If a trust owns directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, 25% or more of the equity interests in a legal entity, the beneficial owner shall mean the trustee. *Note*: This section is NOT a designation of a beneficiary for an investment in the Partnership.

☐ Check this box if no individual owns 25% or more of the legal entity and that you will inform the Partnership if/when an individual assumes 25% or more ownership. Please complete additional Beneficial Owner Information as necessary and attach hereto.

BENEFICIAL OWNER 1

NAME OF INDIVIDUAL OR ENTITY

FinCEN ID or STATE ISSUED DRIVER'S LICENSE NUMBER AND STATE OF ISSUANCE

DATE OF BIRTH (if Individual)

RESIDENCE ADDRESS

CITY

STATE

ZIP CODE

PRIMARY TELEPHONE

SECONDARY TELEPHONE

EMAIL

% OWNERSHIP

☐ **Direct Ownership**

☐ **Indirect Ownership**

BENEFICIAL OWNER 2

NAME OF INDIVIDUAL OR ENTITY

FinCEN ID or STATE ISSUED DRIVER'S LICENSE NUMBER AND STATE OF ISSUANCE

DATE OF BIRTH (if Individual)

RESIDENCE ADDRESS

CITY

STATE

ZIP CODE

PRIMARY TELEPHONE

SECONDARY TELEPHONE

EMAIL

% OWNERSHIP

☐ **Direct Ownership**

☐ **Indirect Ownership**

ACCREDITED INVESTOR STATUS – FOR ALL INVESTORS

Method of Accreditation	
Please indicate whether you fall within any one of the following categories of an accredited investor:	
Natural Persons (ALL)	
A natural person whose individual net worth, or joint net worth with that of my spouse, exceeds $1,000,000 (for purposes of the foregoing, "net worth" means the excess of total assets at fair market value (including personal and real property, but excluding the estimated fair market value of your primary residence) over total liabilities, and "total liabilities" excludes any mortgage on your primary residence in an amount of up to your primary residence's estimated fair market value as long as the mortgage was incurred more than 60 days before your Partnership Interests are purchased). If the fair value of your primary residence is less than the mortgage obligation on your primary residence, you must include the amount of the mortgage obligation in excess of the fair value of the primary residence as a liability in calculating your net worth for the purposes of determining accredited investor status, provided that the mortgage obligation accrued more than 60 days before the date you are signing this Agreement. You may not exclude mortgage liabilities relating to loans 60 days old or less from your net worth.	☐ Yes ☐ No
A natural person who had an individual income in excess of $200,000 in each of the two (2) most recent years or had joint income with my spouse in excess of $300,000 in each of those years and I have a reasonable expectation of reaching the same income level in the current year.	☐ Yes ☐ No
A natural person who holds in good standing one or more professional certifications or designations or credentials from an accredited educational institution that the SEC has designated as qualifying an individual for accredited investor status, specifically, 1) FINRA General Securities Representative license (Series 7); 2) FINRA Private Securities Offerings Representatives license (Series 82); or 3) Licensed investment adviser representative with a State (Series 65)	☐ Yes ☐ No
A knowledgeable employee, as defined in Rule 3c-5(a)(4) under the Investment Company Act, of the issuer of securities where that issuer is a 3(c)(1) or 3(c)(7) private fund. This includes directors, executive officers, or general partners (GP) of the company selling the securities (or of a GP of that company), or knowledgeable employees of a private investment fund.	☐ Yes ☐ No
A director, executive officer or general partner of the Partnership or a director, executive officer. or general partner of the managing partner of the Partnership	☐ Yes ☐ No
Business Entities (ALL)	
An entity in which all of the equity owners are Accredited Investors as defined in Regulation D, Rule 501,under the Securities Act of 1933	☐ Yes ☐ No
A trust with total assets in excess of U.S. $5,000,000 not formed for the specific purpose of acquiring the Class A Units and whose purchase of the Class A Units is directed by a sophisticated Person as described in	☐ Yes ☐ No

SEC Rule 506(b)(2)(ii)	
An irrevocable trust with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the Partnership Interest offered that utilized an EIN (vs SSN) for the entity's TIN	☐ Yes ☐ No
A corporation, partnership, limited liability company, Massachusetts business trust or other similar business trust not formed for the specific purpose of acquiring the securities offered, with total assets in excess of U.S. $5,000,000	☐ Yes ☐ No
A "family office" as defined in SEC Rule 202(a)(11)(G)-1 under the Investment Advisers Act of 1940 (17 CFR 275.202(a)(11)(G)-1) with assets under management in excess of $5,000,000 which was not formed for the specific purpose of acquiring the securities offered and whose prospective investment is directed by a Person who has such knowledge and experience in financial and business matters that such family is capable of evaluating the merits and risks of the prospective investment	☐ Yes ☐ No
A "family client," as defined in SEC Rule 202(a)(11)(G)-1 under the Investment Advisers Act of 1940 (17 CFR 275.202(a)(11)(G)-1) who is the client of a "family office" as defined in SEC Rule 202(a)(11)(G)-1 under the Investment Advisers Act of 1940 (17 CFR 275.202(a)(11)(G)-1) with assets under management in excess of $5,000,000 which was not formed for the specific purpose of acquiring the securities offered and whose prospective investment is directed by a Person who has such knowledge and experience in financial and business matters that such family is capable of evaluating the merits and risks of the prospective investment	☐ Yes ☐ No
A bank as defined in Section 3(a)(2) of the Securities Act of 1933, whether acting in its individual or fiduciary capacity	☐ Yes ☐ No
A broker or dealer registered with the Securities and Exchange Commission under Section 15 of the Securities Exchange Act of 1934	☐ Yes ☐ No
An insurance company as defined in Section 2(a)(13) of the Securities Act of 1933	☐ Yes ☐ No
An investment company registered under the Investment Company Act of 1940	☐ Yes ☐ No
A business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940	☐ Yes ☐ No
A 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	☐ Yes ☐ No
A plan established or 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 U.S. $5,000,000	☐ Yes ☐ No
A private business development Company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940	☐ Yes ☐ No
A private business development company as defined in section 202(a) (22) of the Investment Advisers Act of 1940.	☐ Yes ☐ No
A director, executive officer or general partner of the Partnership or a director, executive officer or general partner of the managing partner of the Partnership.	☐ Yes ☐ No

Canadian Accredited Investor Exemption Under Canadian National Instruments §45-106 ***To be completed only by Canadian Persons and Entities***	
Canadian Natural Persons	
An individual who, either alone or with a spouse, beneficially owns financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds C $1,000,000 "Financial assets" means: (1) cash; (2) securities; or (3) a contract of insurance, a deposit or an evidence of a deposit that is not a security for the purposes of securities legislation.	☐ Yes ☐ No
An individual whose net income before taxes exceeded C $200,000 in each of the 2 most recent calendar years or whose net income before taxes combined with that of a spouse exceeded C $300,000 in each of the 2 most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year	☐ Yes ☐ No
An individual who, either alone or with a spouse, has net assets of at least C $5,000,000	☐ Yes ☐ No
A Person, other than an individual or investment fund, that has net assets of at least C $5,000,000 as shown on its most recently prepared financial statements	☐ Yes ☐ No
An individual registered or formerly registered under the securities legislation of a jurisdiction of Canada as a representative of a Person registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer, other than a Person registered solely as a limited market dealer under one or both of the *Securities Act* (Ontario) or the *Securities Act* (Newfoundland and Labrador)	☐ Yes ☐ No
Canadian Business or Governmental Entities	
A business entity in respect of which all of the owners of interests, direct, indirect, or beneficial, except the voting securities required by law to be owned by directors, are Persons that are accredited investors	☐ Yes ☐ No

A Canadian financial institution or a Schedule III bank, except in Ontario, or its subsidiaries	☐ Yes ☐ No
A person registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer, except in Ontario	☐ Yes ☐ No
The Government of Canada or a jurisdiction of Canada, or any crown corporation, agency or wholly owned entity of the Government of Canada or a jurisdiction of Canada	☐ Yes ☐ No
A municipality, public board or commission in Canada and a metropolitan community, school board, the *Comité de gestion de la taxe scolaire de l'île de Montréal* or an intermunicipal management board in Québec	☐ Yes ☐ No
Any national, federal, state, provincial, territorial, or municipal government of or in any foreign jurisdiction, or any agency of that government	☐ Yes ☐ No
A pension fund that is regulated by the Office of the Superintendent of Financial Institutions (Canada), a pension commission or similar regulatory authority of a jurisdiction of Canada	☐ Yes ☐ No
An investment fund that distributes or has distributed its securities only to: (i) A Person that is or was an accredited investor at the time of the distribution; (ii) A Person that acquires or acquired securities in the circumstances referred to in National Instrument §45-106 §§ 2.10 [Minimum amount investment], or 2.19 [Additional investment in investment funds]; or (iii) A Person described in paragraph (i) or (ii) that acquires or acquired securities under National Instrument §45-106 §2.18 [*Investment fund reinvestment*];	☐ Yes ☐ No
An investment fund that distributes or has distributed securities under a prospectus in a jurisdiction of Canada for which the regulator or, in Québec, the securities regulatory authority, has issued a receipt	☐ Yes ☐ No
A trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a fully managed account managed by the trust company or trust corporation, as the case may be	☐ Yes ☐ No
A Person acting on behalf of a fully managed account managed by that Person, if that Person: (i) is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction, and in Ontario, is purchasing a security that is not a security of an investment fund;	☐ Yes ☐ No
A registered charity under the Income Tax Act (Canada) that, in regard to the trade, has obtained advice from an eligibility adviser or an adviser registered under the securities legislation of the jurisdiction of the registered charity to give advice on the securities being traded	☐ Yes ☐ No
Except in Ontario, the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act or its subsidiaries	☐ Yes ☐ No
a Person that is recognized or designated by the securities regulatory authority or, except in Ontario and Québec, the regulator as an accredited investor	☐ Yes ☐ No

DISTRIBUTION INSTRUCTIONS – FOR ALL INVESTORS

PLEASE COMPLETE ONE OF THE FOLLOWING:

(A) ACH AUTHORIZATION

☐ PLEASE SEND DISTRIBUTIONS VIA ACH

I hereby authorize KOP III GP LLC (the "**Company**") or its affiliates to initiate credit entries to the bank account(s) listed below. I further authorize the financial institution(s) named below to credit such account(s). I understand that this authorization remains in effect until the Company receives from me, in writing, notification to terminate the authorization in such a time and manner as to afford the Company and my financial institution(s) a reasonable time to act on it.

Bank Name	Checking or Savings	ACH Routing Number	Account Number

ACCOUNT HOLDER SIGNATURE

Signature ____________________ Date __________

JOINT ACCOUNT HOLDER SIGNATURE

Signature ____________________ Date __________

(B) CHECK AUTHORIZATION

☐ PLEASE SEND DISTRIBUTIONS VIA CHECK

SUBSCRIPTION AGREEMENT – FOR ALL INVESTORS

Subscriber ("Subscriber") hereby asks King Operating Partners III LP (the "Partnership"), agrees to the terms of the Partnership Agreement in the Form attached hereto as Exhibit B, and applies for the purchase of its Class A Units ("Class A Units") in the Subscription as shown on Page 14 hereof and herewith encloses a check or other acceptable form of payment for the Class A Units.

Subscription. Subscriber hereby subscribes for the Class A Units in the Subscription Amount set forth on page 14 hereof.

Payment. This Subscription Agreement is accompanied by payment via check or funds transfer payable to "King Operating Partners III LP" in the amount equal to the amount stated on page 14 of this Agreement. Funds transfer instructions will be provided upon request. Tax-qualified funds must be paid through a qualified funds custodian.

Subscriber Acknowledgements. Subscriber hereby acknowledges and understands:

(i) That Subscriber understands and acknowledges that the Class A Units are a concentrated oil and gas production investments which are subject to various market, mechanical, production, pricing, and political risks;

(ii) That the Partnership was organized on October 5, 2022, and has a limited financial history. Further, the Class A Units are speculative investments which involve a high degree of risk of loss by Subscriber of the entire investment of Subscriber, and that there is no assurance of any income from such investment;

(iii) That Subscriber understands and acknowledges that the Class A Units is a concentrated oil and gas asset purchase, development, exploration, and production investments which is subject to various mechanical, production, and pricing risks. Subscriber represents that it is not relying on the Class A Units for periodic income;

(iv) That the Class A Units carry substantial transfer restrictions. They will have no public market, and Subscriber will bear the investment's economic risk for an indefinite time period and will not be readily able to liquidate the Class A Units in case of an emergency. Any value that the Class A Units may have will derive from the performance of the Subscription;

(v) That the Partnership reserves the right to modify any part of the King Operating Partners III LP Partnership Agreement without notification to the purchasers when modifications are immaterial to and do not impinge on the economic interest of the Subscriber;

(vi) Subscriber acknowledges that the Class A Units are being offered and sold in reliance on specific exemptions from the registration requirements of applicable federal and state securities laws, and the Partnership and the Managing General Partner rely on the truth and accuracy of Subscriber's representations, warranties, statements, covenants, and agreements set forth herein and in the accompanying Investor Questionnaire in order to determine Subscriber's eligibility and suitability to purchase Class A Units;

(vii) If Subscriber is a plan subject to the Employee Retirement Security Act of 1974 ("ERISA"), the plan administrator has been informed of and understands the Partnership's objectives, policies, and strategies, including illiquidity, development, permitting and environmental risks, and the risk of generating unrelated business taxable income and risks relating to oil and gas investments and represents that the Subscription is consistent with ERISA provisions that require diversification of plan assets and the plan administrator's fiduciary responsibilities;

(viii) That if the Partnership rejects this Subscription Agreement, this payment shall be returned with the notice of such rejection;

(ix) That cash payment for the Class A Units shall be paid to "King Operating Partners III LP."

(x) That in the event the Partnership has not accepted this Subscription by 60 days after the close of the Offering Period, it will promptly return the Subscription Payment and documents, unless it extends the Offering Period. If the offering period is so extended, the Subscription Payment will be returned without reduction and without interest if the Partnership does not accept the Subscription by the end of the Offering Period;

(xi) That Subscriber understands and acknowledges that an investment in the Class A Units is not liquid, not easily transferable or disposed of, and that he has no need for liquidity of this investment;

(xii) That the liability of service providers under the Texas Securities Act, including attorneys, accountants, consultants, and their firms, relating to this offering or the securities purchased through this offering may be capped at an amount equal to three times the fees paid to the service providers unless a trier of fact finds that the service provider engaged in intentional wrongdoing in providing the services;

(xiii) That Subscriber's investments which are not readily marketable are not disproportionate to Subscriber's net worth and Subscriber's investment in the Partnership will not cause this overall commitment to become excessive;

(xiv) That Subscriber has adequate means of providing for its current needs and personal contingencies and no need for liquidity from the investment in the Partnership; and

(xv) If Subscriber is a plan subject to the Employee Retirement Security Act of 1974 ("ERISA"), the plan administrator has been informed of and understands the Partnership's objectives, policies, and strategies, including illiquidity, risks relating to oil and gas investments, and the risk of generating unrelated business taxable income and represents that the Subscription is consistent with ERISA provisions that require diversification of plan assets and the plan administrator's fiduciary responsibilities;

(xvi) Subscriber has relied solely upon the advice of its tax advisor in assessing the tax aspects of investing in the Class A Units;

(xvii) No U.S. or state agency has made any finding or determination as to the fairness of the offering, or any recommendation or endorsement of the Class A Units; and

(xviii) Congress adopted the Corporate Transparency Act ("CTA") as part of the Anti-Money Laundering Act of 2020. The Partnership will be required to report to a Department of Treasury agency (FINCEN) information about designated beneficial owners including: "any individual who, directly or indirectly, either exercises substantial control over such reporting company or owns or controls at least 25 percent of the ownership interests of such reporting company." If a Subscriber owns twenty-five percent (25%) or more of the Partnership, the Partnership will be required to report such ownership to FINCEN. This non-public submission will include beneficial owner's full legal name, date of birth, current address, a unique identification number, and an "image of the document from which the unique identifying number…was obtained," unless the beneficial owner has separately registered with FINCEN.

Subscriber Representations. Subscriber hereby represents, certifies, and warrants as follows:

1. Subscriber has received, read and understood a copy of the form of the Subscription Agreement and the Offering Memorandum dated October 29, 2024 with all exhibits attached thereto (the "Memorandum") including the risks set forth under the section in the Memorandum captioned "Risk Factors," and elsewhere in the Memorandum, the compensation payable to KOP III GP LLC (the "Managing General Partner") and its Affiliates as stated in Section 7.3 of that King Operating Partners III LP Limited Liability Partnership Agreement, dated October 29, 2024 (the "Partnership Agreement"), and in the Summary section of the Offering Memorandum;

2. Subscriber can bear the economic risk of losing the entire investment.

3. Subscriber's overall commitment to investments which are not readily marketable is not disproportionate to Subscriber's net worth and this Subscription will not cause this overall commitment to become excessive.

4. Subscriber has adequate means of providing for its current needs and personal contingencies and has no need for liquidity from the Class A Units.

5. Subscriber has had the opportunity to ask questions of, and receive answers from, the Partnership concerning the terms and conditions of the offering and to obtain such information, to the extent such Persons possess the same or could acquire it without unreasonable effort or expense, as Subscriber deemed necessary to verify the accuracy of the information referred to hereinabove. Subscriber has sought and received or made the decision not to seek, the advice of legal counsel, accountants, business advisors, tax advisors or other professionals regarding a Subscription and the legal, tax and business effects of investing in the Partnership. Subscriber has relied solely upon the Memorandum presented by the Partnership, the Subscription Agreement, the Exhibits to the Memorandum, and such independent investigations as are made by Subscriber or representatives of Subscriber in deciding to purchase the Class A Units subscribed for herein. Subscriber has made an independent investigation of the business purposes of the Partnership as described in the Offering Memorandum and Partnership Agreement and is satisfied that it understands such business plan and the identities and relevant experience of the Managing General Partner's principals. Because Subscriber has conducted its own due diligence investigation regarding an investment in the Partnership that it deemed necessary, it have not placed undue reliance on the Offering Memorandum or information provided by the Managing General Partner in deciding to purchase Class A Units.

6. Subscriber's principal residence, if an individual, is in a state shown in this Agreement; if Subscriber is a corporation, trust or other entity (except a partnership), it was incorporated or organized and is existing under the laws of the state shown in this Agreement; if Subscriber is a partnership, the principal residence of all of its Members are in the states shown on Pages 2-3 hereof; and if Subscriber is a corporation, trust, partnership or other entity, it was not organized for the specific purpose of acquiring the Class A Units.
7. If Subscriber is a legal entity (including a trust, partnership, limited liability company or corporation), Subscriber represents that such entity is: (i) duly organized under the law of the United States or another nation; (ii) is validly existing and in good standing under the laws of the state or nation of organization; (iii) has the power and authority to carry on its business, acquire the Partnership Unit(s), become a Member and perform its obligations and exercise its rights under the Partnership Agreement. Subscriber further represents that acquiring the Offered Unit(s) is for a proper purpose under the applicable law of such entity's governing documents and law. Subscriber further represents that this Subscription Agreement has been duly and validly authorized, executed and delivered and, when accepted by the Partnership, will be valid, binding, and enforceable against such entity.

8. Subscriber received read and fully understand the Memorandum and all of its Exhibits, including, without limitation, the Limited Partnership Agreement.

9. Subscriber is basing its decision to invest only on the information in the Memorandum and information requested of the Partnership in writing by me and has not relied on any other representation made by any other person.

10. Subscriber is a citizen, legal permanent resident, or business entity located the nation referenced on Pages 2-3 herein, with its principal residence maintained at the address set forth in the Investor Questionnaire, is at least twenty-one (21) years of age.

11. Subscriber is executing this Subscription Agreement: (A) on its own behalf, as a natural person, and has the legal capacity to execute, deliver and perform its obligations under this Subscription Agreement or (B) on behalf of a corporation, partnership, limited liability company, trust or other entity, and (i) such entity is duly organized, validly existing and in good standing under the laws of the jurisdiction where it was formed and is authorized by its governing documents to execute, deliver and perform its obligations under this Subscription Agreement and to become a limited partner of the Partnership, (ii) Subscriber has the full power and authority to execute and deliver this Subscription Agreement on behalf such entity and (iii) this Subscription Agreement,

and such entity's execution hereof and performance of its obligations hereunder, has been duly authorized by all requisite corporate or other action by the entity.

12. Subscriber is not, and, in the case of a corporation, partnership, limited liability company, trust or other entity, none of its principal owners, partners, members, directors or officers are, included on the Office of Foreign Assets Control list of foreign nations, organizations and individuals subject to economic and trade sanctions based on U.S. foreign policy and national security goals, Executive Order 13224, which sets forth a list of individuals and groups with whom U.S. persons are prohibited from doing business because such persons have been identified as terrorists or persons who support terrorism, or any other watch list issued by any governmental authority, including the Securities and Exchange Commission.

13. Subscriber's that funds paid to the Partnership are not derived from any criminal enterprise.

14. The offer and sale of the Class A Units to Subscriber did not involve any public advertisement or any general solicitation.

15. Agreement. Subscriber agrees to the following:

16. Subscriber hereby subscribes for the purchase of the Class A Units, as stated on Page 14 of this Agreement.

17. The Partnership may accept or reject this Subscription in whole or in part in its sole and absolute discretion.

18. Subscriber will diligently exercise its rights as set forth in the Partnership Agreement.

19. **Acknowledgement and Covenant to Provide Partnership with Financial and Accounting Information Corroborating Subscriber's Income and Asset Ownership.**

    Acknowledgments: Subscriber understands and acknowledges that SEC rule 506I requires the Partnership to "take reasonable steps to verify that purchasers of securities . . . are accredited investors" and to have obtained this information as to net asset standard qualifications within three months of the Subscription acceptance date. Subscriber further understands that the Partnership must take reasonable steps to verify income-based qualifications on a yearly basis. Subscriber further understands and acknowledges that if Subscriber adds to its Subscription after the initial Subscription, that the Partnership will be required to take the same "reasonable steps" and obtain the same information over again if the subsequent Subscription acceptance date occurs more than three months after any previous Subscription acceptance date for net asset-based qualification and during the following year for income-based qualification.

    Covenant: Accordingly, Subscriber covenants to provide the Partnership with at least one of the following items or correspondence from one of your professional advisors: tax records, bank statements, brokerage statements and other statements of securities holdings, certificates of deposit, tax assessments, appraisal reports by independent third parties, consumer reports, or other documents corroborating Subscriber's accredited investor status representations or to provide a certification as to accredited investor status from a broker-dealer, investment adviser, certified public accountant or licensed attorney.

20. **Covenant by Subscriber to Provide Current Addresses and Telephone Numbers.** Within 30 days of the change of a Subscriber's address or telephone number on record with the Partnership, Subscriber shall provide said updated address and telephone number in writing to the Partnership. Subscriber understands and acknowledges that all notices under this Agreement shall be sent to the address of records for the Partnership and that the Partnership shall not be liable for a lack of notice to Subscriber or for any detrimental effects, including non-consent penalties, to Subscriber relating to lack of notice to a Subscriber for any Subscriber who has failed to provide current information to the Partnership and the Custodian as required by this Section.

21. The Managing General Partner is prepared to provide certain confidential and proprietary information regarding the Subscription to Subscriber. Such confidential and proprietary information relates to the Partnership's oil and gas properties and potential oil and gas properties. All such information provided by the Managing General Partner is herein collectively referred to as "Evaluation Material."

22. To maintain the confidentiality of the Evaluation Material, Subscriber and each individual or entity with access to such Evaluation Material through Subscriber agree: (a) not to use any such Evaluation Material or notes, summaries, analyses, or other material derived in whole or in part therefrom (collectively, "Notes") except to determine whether the Parties wish to subscribe for Class A Units and the terms thereof; (b) not to disclose any such Evaluation Material or Notes, other than to the Affiliates of Subscriber, the officers, directors, employees, advisors and representatives of Subscriber or its Affiliates and any advisors to Subscriber (collectively, "Representatives") with a need to know the information contained therein in connection with this Subscription for Class A Units; provided, that such Representatives shall have agreed to be bound by the terms of this Agreement; provided, further, that Subscriber agrees to be responsible for any breach of the confidentiality provisions of this Agreement by any of its respective Representatives.

23. This Agreement shall not be construed as granting expressly or by implication during its term or thereafter any rights with respect to any Evaluation Material disclosed pursuant to this Agreement (other than as provided hereby). It is understood and agreed by Subscriber that no failure or delay by the Managing General Partner in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or future exercise of any right (equitable or otherwise), power or privilege hereunder.

24. The confidentiality provisions of this Agreement shall be inoperative as to particular portions of the Evaluation Material if such information (i) is currently or becomes generally available to the public other than as a result of a disclosure by the Receiving Parties or their Representatives in violation of this Agreement, which includes any information that is currently accessible in any indexes, books, records or electronic database that is maintained by a county clerk or other publicly available source of land records, (ii) was known to Subscriber on a non-confidential basis prior to its disclosure hereunder, or (iii) becomes available to

Subscriber on a non-confidential basis from a source other than the Managing General Partner when such source is entitled to make such disclosure.

25. If Subscriber or their Representatives are requested or required under applicable law, court order or rules of any governmental regulatory body or national security exchange (whether by oral questions, interrogatories, requests for information, subpoena, civil investigative demand, or similar process) to disclose any Evaluation Material or Notes, it is agreed that Subscriber will provide the Managing General Partner with prompt written notice of such request(s) so that it may seek an appropriate protective order and/ or waive compliance with the provisions of this Agreement. If, failing the entry of a protective order or the receipt of a waiver hereunder, Subscriber or their Representatives are, in the opinion of counsel, legally compelled to disclose Evaluation Material or Notes, Subscriber or their Representatives may disclose only that portion of such Evaluation Material or Notes as is legally required; provided, that Subscriber agree to exercise its best efforts to cooperate with the Managing General Partner's efforts to obtain assurance that confidential treatment will be accorded such Evaluation Material or Notes.

26. Subscriber agrees that Subscriber will not (and it will ensure that its Affiliates (and any Person acting on behalf of or in concert with it or any Affiliate) will not), directly or indirectly, solicit for employment or hire any officer, director, or employee of the Managing General Partner or any of its Affiliates with whom Subscriber has had contact or who became known to Subscriber in connection with its consideration of the Transaction, except that it shall not be precluded from hiring any such employee who has been terminated by the Managing General Partner or its Affiliates prior to commencement of employment discussions between Subscriber or its Affiliates and such officer, director, or employee.

27. It is further understood and agreed that money damages may not be a sufficient remedy for any breach of this Agreement and that the Managing General Partner shall be entitled to seek injunctive or other equitable relief as a remedy for any such breach, and Subscriber further agree to waive any requirement for the security or posting of any bond in connection with such remedy. Such remedy shall not be deemed to be the exclusive remedy for breach of this Agreement but shall be in addition to all other remedies available at law or equity to the Managing General Partner.

28. Subscriber understands that its admission into the Partnership is contingent upon it being an "accredited investor" as defined in SEC Rule 501. Subscriber hereby consents to the Partnership and its Affiliates disclosing such "accredited investor" status and the basis for such status to relevant third parties (including securities regulators and other government agencies) as well as any other information requests related or otherwise appropriate to establish the Partnership's entitlement to a private offering exemption under the Securities Act. Failure to honor any such information request may result in compulsory redemption by the Partnership or forced sale to another investor of Subscriber's Class A Unit. In addition, Subscriber understands that the Partnership and the Managing General Partner and their respective agents and affiliates will disclose any and all information required or requested by governmental or other authorities as required by or in connection with the U.S. Bank Secrecy Act, as amended by the USA PATRIOT Act, and other antimony laundering, anti-terrorism and similar laws, rules and regulations including, without limitation, Executive Order 13224 and the Corporate Transparency Act.

29. Subscriber agrees that it will provide additional information or take such other actions as may be necessary or advisable for the Partnership, in the sole judgment of the Managing General Partner, for anti-money laundering purposes. The Managing General Partner may provide this information, or report the failure to comply with such requests, to appropriate governmental authorities, in certain circumstances without notifying me that the information has been provided. In the event of my delay or failure to produce any such requested information, the Partnership may refuse to accept my investment or may cause a compulsory redemption by the Partnership or forced sale to another investor of my Class A Units. Furthermore, Subscriber understand that the Partnership and the Managing General Partner reserve the right to refuse to make any distribution or other payment to me if the Managing General Partner suspects or is advised that such payment might result in a breach or violation of any applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or such refusal is considered necessary or appropriate to ensure the compliance by the Partnership, the Managing General Partner, the sponsor of the Partnership or their affiliates with any such laws or regulations in any relevant jurisdiction. The Partnership reserves the right to require any payment or distribution to a Limited Partner to be paid into the account from which the Limited Partner's subscription funds originated.

30. **Corporate Transparency Act**.

    a. Subscriber understands that effective January 1, 2024, the Partnership will be subject to the federal Corporate Transparency Act—which requires the Partnership file certain information about its officers, managers, and twenty-five percent (25%) beneficial owners (including disclosing the natural Persons who ultimately own such Partnership interest) with the U.S. Department of Treasury's Financial Crimes Enforcement Network ("FinCEN"). If Subscriber is a disclosable Person, the Partnership will be required to disclose to FinCEN passport or driver license and other background information, or, if such Person has a FinCEN number, disclose such FinCEN number to FinCEN.

    b. Subscriber hereby agrees to provide to the Partnership the documents required by FinCEN or the FinCEN numbers of each natural Person who owns or has control over Subscriber.

    c. Subscriber further acknowledges that FinCEN can impose a $500 per day penalty for late Corporate Transparency Act filings, up to $10,000, and agrees to indemnify the Partnership for any such penalties caused by Subscriber's failure to provide the required information, documents, or FINCEN number to enable the Partnership to timely file its Corporate Transparency Act filings.

31. **ARBITRATION CLAUSE DISCLOSURE:**

    This agreement contains pre-dispute arbitration clauses. By signing an arbitration agreement, the parties agree as follows:

    (A) Arbitration is final and binding on the parties. All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.

(B) The parties waive their right to seek remedies in court, including the right to a jury trial. Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.

I Pre-arbitration discovery is generally more limited than and different from court proceedings. The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.

(D) The arbitrators' award is not required to include factual findings or legal reasoning and any party's right to appeal or seek modification of rulings of the arbitrators is strictly limited. The arbitrators do not have to explain the reason(s) for their award.

I The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.

(F) The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this agreement.

32. **ARBITRATION CLAUSE – <u>King Operating Partners III LP and its Managing General Partner and Affiliates</u>**

If a dispute, controversy or claim, of any kind and every kind or type, whether based on contract, tort, statute, regulations, or otherwise, arising out of, or connected with, or relating in any way to this Agreement, or the relationship of the parties, or the obligations of the parties, or the operations carried out under this Agreement, including without limitation, any dispute as to the existence, validity, construction, interpretation, negotiation, performance, non-performance, breach, termination, or enforceability of this Agreement, the breach thereof (any one of which constituting the "Dispute") or claims against involving the Partnership, its Managing General Partner, KOP III GP LLC, and the officers, employees, contractors, consultants and Affiliates of the Managing General Partner, including, but not limited to King Operating Corporation and James R. Young, and if the Dispute cannot be settled through direct discussions (in the opinion of any party), the parties agree to first endeavor to settle the Dispute in an amicable manner by mediation using an agreed-upon third-party attorney mediator, before resorting to arbitration. If the Dispute is not settled by mediation, then and thereafter any unresolved Dispute, including the arbitrability of any unresolved Dispute, shall be resolved by final and binding arbitration administered by and pursuant to the rules of the American Arbitration Association ("AAA") in accordance with then current Commercial Arbitration Rules with the award being final and binding. Any controversy concerning whether a Dispute is arbitrable shall be determined by the arbitrator(s) and not by any court. Judgment upon the award rendered by the arbitrator(s) may be entered in any state or federal court having jurisdiction thereof. Any provisional remedy which would be available from a court of law shall be available from the arbitrator(s) to the parties to this Agreement pending arbitration. No party shall be entitled to join or consolidate claims in arbitration by or against other investors or arbitrate any claim as a representative or member of a class or in a private attorney general capacity.

During the arbitration, civil discovery shall be permitted for the production of documents and taking of depositions. The arbitrator(s) shall be guided but not controlled by the Texas Rules of Civil Procedure in allowing discovery and all issues regarding compliance with discovery requests shall be decided by the arbitrator(s). The arbitrator(s) may impose sanctions and take other actions with regard to the parties that the arbitrator(s) deem appropriate to the same extent that a judge could pursuant to the Texas Rules of Civil Procedure. The Federal Arbitration Act shall govern all arbitration proceedings under this Agreement. This Agreement shall in all other respects be governed and interpreted by the laws of the State of Texas, including its statutes of limitation but excluding any conflicts or choice of law rule or principles that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The arbitration shall be conducted in Dallas County, Texas as the exclusive venue, by one neutral arbitrator chosen by AAA according to its Commercial Arbitration Rules if the amount of the claim, exclusive of interest and costs, is one million dollars ($1,000,000) or less or by three neutral arbitrators chosen by AAA in the same manner as the one neutral arbitrator if the amount of the claim, exclusive of interest and costs, is more than one million dollars ($1,000,000). Neither party nor the arbitrator(s) may disclose the existence, content, evidence presented during, or results of any arbitration hereunder without the prior written consent of all parties. The parties voluntarily and knowingly waive any right they have to a jury trial.

The arbitrator(s) has no authority to award punitive or exemplary damages. The arbitrator(s)' award must be rendered within 60 days following the conclusion of the hearing or submission of evidence. The award of the arbitrator(s) shall be in writing.

All evidence submitted in an arbitration proceeding, transcripts of such proceedings, and all documents submitted by the Parties in an arbitration proceeding, shall be kept confidential by the arbitration panel and the Parties.

All fees and expenses of the arbitration shall be borne by the parties equally who shall make deposits as requested by AAA of each party's share of the deposits requested. Failure or refusal by a party to pay its share of the requested deposits shall constitute a waiver by the non-paying party of its rights to be heard, present evidence, cross-examine witnesses, and assert counterclaims in the arbitration. Informing the arbitrator(s) of a party's failure to pay its share of the requested deposits for the purpose of implementing this waiver provision shall not be deemed to affect the arbitrator's impartiality, neutrality, independence, or ability to proceed with the arbitration. Absent a contrary finding by the arbitrator(s), each party shall bear the expense of its own counsel and attorney's fees, experts, witnesses, and preparation and presentation of proofs. This agreement to arbitrate shall survive the termination or repudiation of this Agreement.

33. Notwithstanding Section 32 of this Agreement, it is further understood and agreed that money damages may not be a sufficient remedy for any breach of this Agreement and that the Partnership and the Managing General Partner shall be entitled to seek injunctive or other equitable relief as a remedy for any breach of the confidentiality provisions of this Agreement, and Subscriber further agrees to waive any requirement for the security or posting of any bond in connection with such remedy. Such remedy shall

not be deemed to be the exclusive remedy for breach of this Agreement but shall be in addition to all other remedies available at law or equity to the Partnership and the Managing General Partner.

34. This Agreement and all of its provisions are made to be performed in Dallas County, Texas, United States of America, where jurisdiction and venue shall lie for all purposes, including, but not limited to, any arbitration or litigation involving the validity or enforceability of the requirement of arbitration hereof, or any dispute arising there under.

35. Subscriber recognizes that the offer and sale of the Class A Units to Subscriber were based upon the representations and warranties of Subscriber contained in Paragraphs 1 through 15 above and hereby agrees to indemnify the Partnership, the Managing General Partner, and the officers, employees, contractors, consultants and Affiliates of the Managing General Partner and to hold each of such entities and Persons harmless against all liabilities, costs or expenses (including reasonable attorney's fees) arising by reason of or in connection with any misrepresentation or any breach of such warranties by Subscriber. Said indemnification shall survive the acceptance of the Subscription for Class A Units, the amendment of the Partnership Agreement to add Subscriber as a Member, and the Subscriber's death, disability, dissolution, winding up, termination of existence and bankruptcy for any cause.

36. Subscriber hereby indemnifies the Partnership, the Managing General Partner, and the officers, employees, consultants and Affiliates of the Managing General Partner, and holds each of such Persons and entities harmless from and against any and all loss, damages, liability or expense, including costs and reasonable attorney's fees, to which they may be put or which they may incur by reason of or in connection with any misrepresentation made by Subscriber, any breach of any of his warranties, or his failure to fulfill any of his covenants or agreements set forth herein. Subscriber agrees that all of the representations and warranties of Subscriber set forth in this Subscription Agreement and any other documents submitted herewith shall survive the purchase of the Class A Units. This Subscription and the representations and warranties contained herein shall be binding upon the heirs, legal representatives, successors and assigns of Subscriber.

37. Subscriber acknowledges that all information provided to it relating to the Partnership is confidential and nonpublic and that it will keep all such information in confidence and will neither use such information for its personal benefit, other than for its Subscription under this Agreement. Subscriber shall not disclose such information to third parties for any reason, other than to advisors in connection with evaluating, making, or holding the purchase of the Class A Unit(s). Subscriber agrees that such advisors will acknowledge prior to the receipt of such information that they are also subject to the restrictions set forth in this Section 18 to the same extent as Subscriber. This section shall not apply to information: (a) which at the date of its disclosure or which thereafter enters the public domain other than as a result of any act or omission by the Subscriber or its Representatives or anyone to whom the Subscriber or its Representatives transmitted such information; (b) which is or becomes lawfully known to the Subscriber or its Representatives on a non-confidential basis and not in contravention of applicable law from a source (other than the Managing General Partner) that is entitled to disclose the information; (c) which is already in the possession of the Subscriber or its Representatives or is lawfully acquired by them; or (d) which the Managing General Partner has provided its prior written consent for the disclosure to the Subscriber or its Representatives.

38. Source of Subscription Funds has not originated from a third-party credit facility.

Special Power of Attorney

Subscriber hereby constitutes and appoints KOP III GP LLC with full power of substitution and re-substitution, the true and lawful attorney of Subscriber, for the use and benefit of Subscriber to sign, execute, certify, swear to, acknowledge, file and record any other certificate, instruments and documents or amendments thereto, which may be required of the Subscription or of the Subscribers of the Subscription under the laws of any state or by any governmental agency, or which KOP III GP LLC deems necessary or advisable to file, record or deliver. This authority includes the authority to enter the Partnership Agreement attached as Exhibit B to the Offering Memorandum on behalf of Subscriber and to amend said Partnership Agreement to add Subscriber as a Member. The foregoing grants of authority may be exercised by each of such attorneys-in-fact by listing the name of Subscriber along with the names of all other Persons for whom certificates, instruments and documents are prepared, with the single signature of such attorney-in-fact acting for all of the Persons whose names are so listed.

Upon acceptance by the Partnership of the Subscription of Subscriber, Subscriber agrees (a) to become a Subscriber of the Offered Unit(s) under the terms of this Subscription Agreement, (b) to make the payment required by the Subscription Agreement, and (c) otherwise to be bound by the terms of the Subscription Agreement. Subscriber acknowledges and agrees that, except for good and sufficient cause and as required by law, Subscriber is not entitled to cancel, terminate or revoke this Subscription, any agreements of Subscriber hereunder, or the power of attorney granted hereby and that such Subscription, agreements and power of attorney shall survive (i) changes in the transactions, documents and instrument described in the Memorandum which in the aggregate are not material or which are contemplated by the Memorandum, and (ii) the death or disability of Subscriber; provided, however, that if the Partnership shall not have accepted this Subscription by the date 30 days after the date of signing by Subscriber of this Subscription Agreement, either by personally delivering to Subscriber an executed copy hereof reflecting such acceptance or by depositing with an international delivery service, delivery fee prepaid, a written notice of acceptance addressed to Subscriber hereunder, at the address set forth below, this Subscription, all agreements of Subscriber hereunder, and the power of attorney granted hereby shall automatically be canceled, terminated and revoked.
WHEREFORE, IN CONSIDERATION, of the foregoing covenants and representations, Subscriber hereby submit the following Subscription for the Class A Units as specified on Page 14 of the Subscription Agreement for King Operating Partners III LP's consideration in King Operating Partners III LP.

The above representations are not a waiver of any rights that I may have under the acts administered by the Securities and Exchange Commission or by any state regulatory agency administering statutes bearing on the offer and sale of securities.

Indemnification Obligations of the Undersigned

Subscriber hereby agree to indemnify, defend and hold harmless the Partnership, the Managing General Partner, and their respective partners, members, officers, directors, affiliates and advisors from any and all damages, losses, liabilities, costs and expenses (including costs of suit and reasonable attorneys' fees) (collectively "**Losses**") that they may incur by reason of my failure to fulfill all of the terms and conditions of this Subscription Agreement or by reason of the untruth or inaccuracy of any of the representations, warranties, statements, covenants or agreements contained herein, in the accompanying Investor Questionnaire or in any other documents I have furnished to any of the foregoing in connection with my subscription for Units. This indemnification includes, but is not limited to, any Losses incurred by the Partnership, the Managing General Partner, or any of their respective members, officers, directors, affiliates or advisors defending against any alleged violation of federal or state securities laws which is based upon, or related to, any untruth or inaccuracy of any of the representations, warranties, statements, covenants or agreements set forth herein, in the accompanying Investor Questionnaire or in any other documents I have furnished to any of the foregoing in connection with my subscription for Units. The foregoing indemnification obligations shall survive until one (1) day after the expiration of the applicable statute of limitations or completion of liquidation of the Partnership, whichever is later.

Subscriber's Limited Power of Attorney

I hereby constitute and appoint the Managing General Partner, as my true and lawful representative and attorney-in-fact, in my name, place and stead to (i) execute, sign, acknowledge and deliver a counterpart signature page to the Limited Partnership Agreement on my behalf and (ii) acknowledge, seal, swear to, verify and deliver those certificates, documents, amendments, and other instruments specified in the Limited Partnership Agreement. The power of attorney granted hereunder is a special power of attorney coupled with an interest and is irrevocable.

Subscriber acknowledges and agrees that, except for good and sufficient cause and as required by law, Subscriber is not entitled to cancel, terminate or revoke this Subscription, any agreements of Subscriber hereunder, or the power of attorney granted hereby and that such Subscription, agreements and power of attorney shall survive (i) changes in the transactions, documents and instrument described in the Memorandum which in the aggregate are not material or which are contemplated by the Memorandum, and (ii) the death or disability of Subscriber.

Instructions to Investor

You are required to execute your own Subscription Agreement. The Managing General Partner will not accept a Subscription Agreement that has been executed by someone other than you, unless such person is acting in a fiduciary capacity on your behalf or otherwise has been given your legal power of attorney to sign on your behalf, and you satisfy all of the requirements for investing in the Partnership set forth in the Memorandum, in this Subscription Agreement and in the accompanying Investor Questionnaire.

Your execution of this Subscription Agreement constitutes your binding offer to purchase the Units subscribed for. Once you subscribe to purchase Units, you may not withdraw your subscription or funds, except as specifically permitted by applicable law. The Managing General Partner, in its sole and absolute discretion, may reject or accept your subscription, in whole or in part, and, in each case, without liability to you. If your subscription is rejected, then all of your funds will promptly be returned to you, without any interest thereon.

NOTICE TO RESIDENTS OF ALL STATES. THE UNITS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR JURISDICTION, AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT AND SUCH LAWS. THE UNITS ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAWS PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. THE UNITS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE UNITS OR THE ACCURACY OR ADEQUACY OF THE MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

I ACKNOWLEDGE THAT ALL DOCUMENTS, RECORDS AND BOOKS PERTAINING TO AN INVESTMENT IN THE FUND HAVE BEEN MADE AVAILABLE FOR INSPECTION BY ME AND MY ATTORNEY, ACCOUNTANT, AND/ OR OTHER ADVISORS.

SIGNATURE PAGE
FOR (1) SUBSCRIPTION AGREEMENT & (2) LIMITED PARTNERSHIP AGREEMENT

I, the undersigned, agree to purchase $_______________of Class A Units and to become a ☐ General Partner or ☐ Limited Partner (check applicable box) under the terms and conditions of this Subscription Agreement and the Memorandum and the Exhibits attached thereto, including, without limitation, the Limited Partnership Agreement.

Initials: _______________

I acknowledge and agree that the Units I am acquiring will be governed by the terms of the Limited Partnership Agreement, which is attached to the Memorandum as Exhibit B and which I have and understand, and I agree to be bound by all of the terms and conditions of the Limited Partnership Agreement if my subscription is accepted, in whole or in part, by the Partnership. I, the undersigned, by executing the Limited Partnership Agreement, agree to become a Limited Partner in the Partnership on the terms provided, make the applicable representations, warranties, and agreements set forth in the Limited Partnership Agreement, and grant the power of attorney provided in the Limited Partnership Agreement.

Initials: _______________

Additionally, I hereby certify, to the best of my knowledge, that the information provided herein is complete and correct and that I have read and understand the risks and disclosures contained in the Memorandum and exhibits thereto, including, but not limited to, the illiquid nature of an investment in the Partnership.

Initials: _______________

INDIVIDUAL(S) AND (OR) JOINT OWNER(S):

X________________________________ **X**________________________________

Signature of Individual Investor Signature of Joint Owner, if applicable

Date:______________________________ Date:______________________________

ENTITY INVESTORS:
NAME OF ENTITY

NAME OF ENTITY REPRESENTATIVE TITLE OF ENTITY REPRESENTATIVE

X____
Signature of Entity Representative Date

TO BE COMPLETED BY THE MANAGING GENERAL PARTNER

SUBSCRIPTION FOR $________________OF CLASS A UNITS IS HEREBY ACCEPTED BY:

KING OPERATING PARTNERS III LP
By: KOP III GP LLC, its Managing General Partner

X____ ____
James R. Young, Manager Date

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SUPPLEMENT NO. 1
FIRST CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM
DATED OCTOBER 29, 2024, AND AS AMENDED DECEMBER 9, 2024

$125,000,000

(Combined with Prior Offering Amount of $100,000,000)

April 16, 2025

KING OPERATING PARTNERS III LP

a **KOPX** Branded Project

Class A Units

625

Minimum Investment

$200,000

(Lesser Investment Amounts May Be Accepted
By The Managing Partner in Its Sole Discretion)

KING OPERATING PARTNERS III LP

<u>Supplement No. 1 to Amended Confidential Private Placement Memorandum</u>

This Supplement No. 1 (this "**Supplement**") to the Amended Confidential Private Placement Memorandum of King Operating Partners III LP (the "**Partnership**") dated October 29, 2024, as amended on December 9, 2024, (the "**Memorandum**"), is being furnished to prospective investors on a confidential basis solely for evaluating an investment in the Partnership. Each person receiving a copy hereof, by accepting such delivery, shall be deemed to have agreed not to disclose or use any of the information contained herein, except for the purpose of evaluating an investment in the Partnership, and shall further agree not to distribute this Supplement, the Memorandum, or any reproduction of any offering documents to any other person or entity. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Memorandum.

This Supplement and the Memorandum do not purport to contain all the information that an interested party may desire. In all cases, interested parties should conduct their own investigation, analysis and evaluation of the Partnership and the terms of this Offering, including the merits and risks of an investment in the Class A Units and the data set forth in this Supplement and the Memorandum. We have summarized certain documents and other information in a manner that we believe to be accurate, but interested parties should refer to the actual documents for a more complete understanding of what we disclose in this Supplement and the Memorandum. **Please carefully review the "Notice to Recipients" section in the Memorandum for additional investor disclosures.**

Neither the Securities and Exchange Commission nor any state securities commission nor any other governmental authority has approved or disapproved of the transactions contemplated hereby or determined that this Supplement or the Memorandum are accurate or complete. Any representation to the contrary is a criminal offense. The offer and sale of the Class A Units is not being registered under the Securities Act or qualified for sale under the securities laws of any state of the United States or any jurisdiction outside the United States. Rather, the Class A Units are being offered and sold only to "accredited investors" (as defined in Rule 501(a) of Regulation D under the Securities Act) in accordance with Rule 506(c) of Regulation D under the Securities Act and in reliance on an exemption from registration provided by Section 4(a)(2) of the Securities Act and analogous provisions of certain U.S. state securities laws; investors resident in the European Economic Area and/or United Kingdom must also satisfy the requirements for a "Qualified Investor" and/or "Relevant Person" including fulfilling the requirements of an accredited investor status (see below). **If you do not qualify as an "accredited investor," or cannot provide information verifying your status as an "accredited investor," then you are prohibited from purchasing Class A Units in the Offering.** The Class A Units offered hereby will be subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under federal and applicable state securities laws, either pursuant to registration or exemption therefrom.

SUPPLEMENTAL INFORMATION & DISCLOSURES

This Supplement updates certain information provided in the Memorandum and is being furnished as a quick reference and summary. This Supplement does not update any information except as specifically described herein. To the extent, and only to the extent, that the information in this Supplement conflicts with information contained in the Memorandum, the information contained in this Supplement will supersede such prior information.

This Supplement No. 1 is being issued to disclose the following information:

I. Increase of Capitalization of Offering to equal 625 units @ $200,000 per unit or $125,000,000 and the current status of achieving full funding of King Operating Partners III LP Subscription Representation Modification

II. Subscription Agreement Representation 38

III. Well Development Details Subsequent to Issuance of as amended private placement memorandum for King Operating Partners III LP, dated December 9, 2024.

IV. The revised estimated Source and Use of Proceeds for $125,000,000 offering is as follows:

V. Clarification and Modification of the Use of Proceeds

I. Increase of Capitalization of Offering to equal 625 units @ $200,000 per unit or $125,000,000 and the current status of achieving full funding of King Operating Partners III LP

The Partnership seeks to achieve additional diversification and accretion of value to the Partnership assets by proposing the drilling of four Bivins Ranch wells and the acquisition of up to two sand mine leaseholds and the development of associated frac sand plants. Detailed implementation details are described in this supplement. Since the issuance of the confidential private placement offering of King Operating Partners III LP dated October 29, 2024, approximately one hundred thirty-three (133) Class A Units equal to $200,000 per unit have been subscribed as of the date of this Supplement. The current aggregate capitalization amount equals $26,561,000.

II. Subscription Agreement Representation 38

Source of Subscription Funds has not originated from a third-party credit facility.

III. Well Development Details Subsequent to Issuance of as amended private placement memorandum for King Operating Partners III LP dated December 9, 2024.

Bertha 28-6 1H	
Spud Date	8/1/2024
Drilling Days	8/1/2024 – 8/27/2024 (27 days)
Frac Days	9/16/2024 – 9/24/2024 (9 days)
Frac Details	36 stages
Formation	Goen Limestone
Measured Depth	16,737'
Total Vertical Depth	5,432'
Lateral Section Length	11,307'
Date Flowback Commenced	10/8/2024

Jack Straw 43-46 1H	
Spud Date	10/16/2024
Drilling Days	10/16/2024 – 11/12/2024 (27 days)
Frac Days	11/21/2024 – 11/30/2024 (9 days)
Frac Details	47 stages
Formation	Goen Limestone
Measured Depth	15,251'
Total Vertical Depth	5,432'
Lateral Section Length	9,480'
Date Flowback Commenced	12/22/2024

Tennessee Jed 1H

Spud Date	11/14/2024
Drilling Days	11/14/2024 – 12/5/2024 (20 days)
Frac Days	12/09/2024 – 12/15/2024 (6 days)
Frac Details	29 stages
Formation	Goen Limestone
Measured Depth	14,453'
Total Vertical Depth	5,432'
Lateral Section Length	8,792'
Date Flowback Commenced	12/31/2024

Constellation 2H

Spud Date	12/1/2024
Drilling Days	12/01/2024 – 12/11/2024 (10 days)
Frac Days	1/1/2025 – 1/03/2025 (3 days)
Frac Details	20 stages
Formation	San Andres
Measured Depth	10,646'
Total Vertical Depth	5,747'
Lateral Section Length	5,012'
Date Flowback Commenced	TBD

Constellation 3H

Spud Date	11/20/2024
Drilling Days	11/20/2024 – 11/30/2024 (10 days)
Frac Days	1/1/2025 – 1/03/2025 (3 days)
Frac Details	20 stages
Formation	San Andres
Measured Depth	10,665'
Total Vertical Depth	5,120'
Lateral Section Length	5,091'
Date Flowback Commenced	TBD

Bivins Ranch 3501S

Spud Date	12/27/2024
Drilling Days	12/27/2024 – 3/9/2025 – 31 days (zipper)
Frac Days	TBD
Frac Details	42 stages
Formation	Canyon Lime
Measured Depth	15,530'
Total Vertical Depth	9,310'
Lateral Section Length	6,245'

Date Flowback Commenced	TBD

Bivins Ranch 3502N

Spud Date	12/30/2024
Drilling Days	12/30/2024 – 4/6/2025 – TBD days
Frac Days	TBD
Frac Details	44 stages
Formation	Canyon Lime
Measured Depth	16,130'
Total Vertical Depth	9,330'
Lateral Section Length	6,445'
Date Flowback Commenced	TBD

Bull 10-10 1H

Spud Date	Spud 2/2/2025, New Rig 3/29/2025
Drilling Days	Spud 3 Days, New Rig 20 Days days
Frac Days	TBD
Frac Details	TBD
Formation	Goen Limestone
Measured Depth	17,347''
Total Vertical Depth	5,472'
Lateral Section Length	12,850'
Date Flowback Commenced	TBD

Operated Wells Activity – Bivins Ranch Activity -

After the acquisition of the Bivins Ranch project from Sunlight Exploration in November of 2024, the King Operations Team implemented the executable plan for the first two wells on the Ranch. Upon analysis of the Geological trends and available 3D seismic data, a favorable pre-existing drilling pad was selected to drill the first 2 Canyon Lime mile plus horizontal wells was on the exiting pad built years past by a previous operator. This available pad helped King save several hundred thousand dollars. This existing location gave us the opportunity to drill one north up dip well and one south down dip well. Operations decided to drill these wells concurrent or batch drilling, meaning each hole section would be drilled in the first well then use a walking rig to walk over to the second well (40' away) and complete the same section of hole, estimations using this method will save around $300K in the drilling phase and $250K in the completion phase of the project, plus assist with the upkeep of long term production. A rig was selected and a field team put together in mid-December with plans to Spud the 2 wells before the New Year. We spud and set surface on the Bivins Ranch 3501S on 12/27/24 and were able to walk over and start the Bivins Ranch 3502N on 12/27/24. This area had not been drilled in quite some time and some shallow geological challengers were encountered but the team was able to work thru these challenges. The 3501S is now drilled and cased to completion and the 3502N is just days away from its final depth. Once drilling is finished the rig will be released and the ops team hopes to be able to zipper frac these two miles plus laterals by early May 2025, with flowback and production coming shortly thereafter.

IV. The revised estimated Source and Use of Proceeds for $125,000,000 offering is as follows:

Source and Use of Proceeds for $125,000,000 Offering

Source of Funds	Amount	Percentage
Managing General Partner's Contribution for the Managing General Partner Interest	Services	-
Partner's Capital Contributions	$125,000,000	100.00%
Totals:	$125,000,000	100.00%

Use of Proceeds

All figures used are estimates and are subject to adjustment.

	Amount	% of Total
Acquisition of Oil & Gas Mineral Acreage + Drilling and Development Costs of Proposed New Wells Browning Oil Bertha 28-6 1H Browning Oil Tennessee Jed 1H Browning Oil Jack Straw 43-46 1H Rise Oil and Gas Constellation 2H Rise Oil and Gas Constellation 3H King Operating Bivins Ranch 3501S King Operating Bivins Ranch 3502N Cholla Petroleum Bull 10-10-1H Additional Wells at Discretion of Managing Partner	$85,000,000	68%
Sand Mine Leasehold Assets and Plants Up to Two	$21,250,000	17%
Offering and Marketing Costs	$18,750,000	15.00%
625 Class A Units @ $200,000 / Unit	$125,000,000	100.00%

V. Clarification and Modification of the Use of Proceeds

As the Managing Partner for the Partnership, KOP III GP LLC, has determined, in the best interest of the development of the Partnership's assets is to deploy approximately fifteen (15%) to twenty percent (20%) of the proposed acquisition of Oil & Mineral Acreage + Drilling and Development Costs of Proposed New Wells to acquire and operate Frac Sand leaseholds and mines. The strategy is to further diversify the possible accretion of value of the Partnership's assets by further diversification of the two possible income streams for the generation of net operating cash flow. Achieving this objective is projected to bolster KOPIII's ability to produce a more stabilized current and future cash flow to partners and diversify our exposure to commodity prices as we navigate this unique geopolitical climate. Since the acquisition of frac sand mine leaseholds and production plants generate different tax consequences than oil and gas, the projected 2025 first year tax deduction percentage of contributed capital is anticipated to be slightly less than our typical expectation of ~75%. While this percentage of contributed capital is unknown, the projected range equals ~55-65% for 2025 subscribers. Taxable income generated by the sand mine leasehold and plant will be subject to the passive loss rules pursuant to IRC 469.

Further, disclosed on Page 70 of the amended Offering, the Managing Partner may determine:

Substitute Well Location or Decision Not to Drill

The Managing General Partner or Operator may determine the location of wells to be drilled, and it is possible that such locations may change prior to drilling. The Managing General Partner will on behalf of the Partnership participate in such decisions to the extent of the Partnership's rights. It is possible that the Operator could decide not to drill Partnership Wells in the locations and according to the plan described in this Memorandum.

For the past year, King Operating Corporation's technical team has been sourcing, qualifying, and prioritizing the potential impact and possible economic benefits of providing Frac Sand to the active domestic oil and gas operators.

The primary considerations for such acquisitions of Frac Sand leaseholds and mines are the strategic locations of such sand mines situated in the various oil basins: Permian, Delaware, Bakin, Haynesville and Eagle Ford. The close proximity or adjacent placement of the sand mine to prolific active drilling activity is imperative to achieving commercial success due to the significant cost of transporting the frac sand to the appropriate drill site. Frac sand may be produced in various varieties, however, the general calcifications are divided into either wet sand or dry sand.

Currently two different potential Frac Sand mine leaseholds are being sourced, qualified, and evaluated.

Please refer to the revised Use of Proceeds below which depicts the allocation of offering proceeds which will be deployed to acquire sand mine leasehold assets and the infrastructure to process, produce, dry both wet and dry frac sand and market such produced sand to targeted oilfields.

The revised Projected Financial Forecast is depicted below:

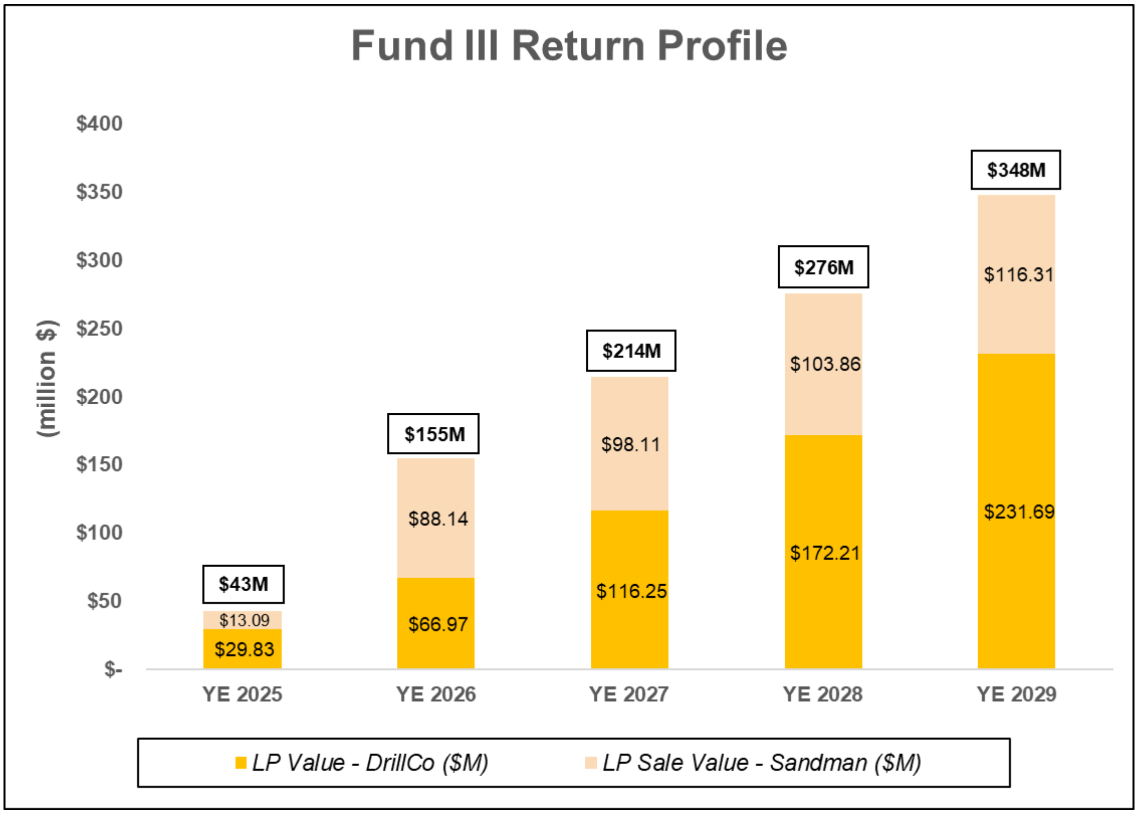
Summary Finanicals & Operating Performance	2024E	2025E	2026E	2027E	2028E	2029E	2024-2029E
Net Oil Production (Mbbl)	0	286	539	583	618	649	2,675
Net Gas Production (MMCF)	1	839	2,506	3,187	3,701	4,144	14,378
Net Total Production (MBOE)	**0**	**426**	**957**	**1,114**	**1,234**	**1,340**	**5,071**
Total Sand Production (tons)	-	*735,000*	*3,680,000*	*4,032,000*	*4,233,600*	*4,445,280*	*17,125,880*
WI Total Production (BOE/d)	*1*	*1,554*	*3,493*	*4,068*	*4,506*	*4,890*	*3,085*
Net Total Production (BOE/d)	*0*	*1,165*	*2,619*	*3,051*	*3,380*	*3,668*	2,314
Net Wells Drilled	*1*	*11*	*8*	*6*	*6*	*6*	*38*
Total Net Revenue - DrillCo ($M)	$ 0.01	$ 24.31	$ 50.59	$ 57.08	$ 62.10	$ 66.55	$ 260.63
Total Gross Revenue - Sandman ($M)	$ -	$ 11.39	$ 57.04	$ 62.50	$ 65.62	$ 68.90	$ 265.45
Total Gross Revenue - KOPIII ($M)	$ 0.01	$ 35.70	$ 107.63	$ 119.57	$ 127.72	$ 135.46	$ 526.08
Expenses - DrillCo							
LOE ($M)	$ 0.00	$ 2.84	$ 6.33	$ 7.82	$ 8.81	$ 9.72	$ 35.52
Taxes ($M)	$ 0.00	$ 1.86	$ 4.00	$ 4.55	$ 4.98	$ 5.36	$ 20.76
Expenses - Sandman							
Cost of Goods Sold ($M)	$ -	$ 2.39	$ 11.96	$ 13.10	$ 13.76	$ 14.45	$ 55.66
Expense ($M)	$ -	$ 4.64	$ 15.70	$ 16.69	$ 17.24	$ 17.81	$ 72.08
KOPIII - EBITDA ($M)							
DrillCo	$ 0.00	$ 19.60	$ 40.26	$ 44.70	$ 48.31	$ 51.47	$ 204.35
Sandman	$ -	$ 4.36	$ 29.38	$ 32.70	$ 34.62	$ 36.64	$ 137.71
Total ($M)	**$ 0.00**	**$ 23.96**	**$ 69.64**	**$ 77.41**	**$ 82.93**	**$ 88.11**	**$ 342.05**
Disturbutions - LP ($M)	$ 0.00	$ 14.38	$ 40.78	$ 44.98	$ 48.39	$ 51.60	$ 200.14
Disturbutions - GP ($M)	$ 0.00	$ 3.59	$ 10.45	$ 11.61	$ 12.44	$ 13.22	$ 51.31
D&C Expenditures ($M) - DrillCo	$ (8.25)	$ (64.03)	$ (39.40)	$ (39.40)	$ (39.40)	$ (39.40)	$ (229.88)
Cash On Hand ($M)	$ -	$ 8.62	$ 8.28	$ -	$ -	$ -	$ -
CAPEX KOPIII Raise ($M)	$ 16.87	$ 71.70	$ -	$ -	$ -	$ -	$ 88.56
CAPEX KOPIII Reinvestment ($M)	$ -	$ 5.99	$ 17.41	$ 19.35	$ 20.73	$ 22.03	$ 85.51
RBL Drawdown ($M)	$ -	$ -	$ 13.71	$ 20.05	$ 18.67	$ 17.37	$ 69.80
Net Capital Expenditures ($M)	**$ 8.62**	**$ 22.28**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 14.00**
Equity Investment - Sandman ($M)	$ -	$ (14.00)	$ -	$ -	$ -	$ -	$ (14.00)
Total Capital - Pro Forma ($M)	**$ (8.25)**	**$ (78.03)**	**$ (39.40)**	**$ (39.40)**	**$ (39.40)**	**$ (39.40)**	**$ (243.88)**

Resevere Base Loan - Summary & Analysis	2024E	2025E	2026E	2027E	2028E	2029E
PDP Reserve Value ($M)	$ 49.35	$ 55.55	$ 101.36	$ 119.14	$ 134.95	$ 148.96
RBL Capacity ($M)	$ 29.61	$ 33.33	$ 60.82	$ 71.49	$ 80.97	$ 89.38
RBL Availability Beginning of Period ($M)	$ 29.61	$ 33.33	$ 60.82	$ 57.77	$ 47.21	$ 36.95
RBL CAPEX Draw ($M)	$ -	$ -	$ (13.71)	$ (20.05)	$ (18.67)	$ (17.37)
RBL Availability End of Period ($M)	**$ 29.61**	**$ 33.33**	**$ 47.11**	**$ 37.73**	**$ 28.54**	**$ 19.58**
RBL Drawn ($M)	$ -	$ -	$ 13.71	$ 20.05	$ 18.67	$ 17.37
Cumulative RBL Drawn ($M)	$ -	$ -	$ 13.71	$ 33.76	$ 52.43	$ 69.80
Debt Service ($M)	$ -	$ -	$ 1.00	$ 1.46	$ 1.36	$ 1.27
Cumulative Debt Service ($M)	$ -	$ -	$ 1.00	$ 2.46	$ 3.83	$ 5.10

YE 2025 - Equity Mulitple	0.34x
YE 2026 - Equity Multiple	1.24x
YE 2027 - Equity Multiple	1.71x
YE 2028 - Equity Multiple	2.21x
YE 2029 - Equity Multiple	2.78x

Projected Financial Forecast Assumptions:

Oil Price Per Barrel. $70.00 Natural Gas Per MCF $4.00



NOTE

The above financial model includes the securing a reserved based credit facility ("RBL") to be utilized to fund the well development costs and associated acquisition costs of Leasehold assets. Additionally, the model includes a projected net operating cash flow deployment for well development and Leasehold Asset acquisition costs equal to $85,513,260.

The foregoing financial illustrations are "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are based on numerous variables and assumptions which, although believed in good faith to be reasonable, may prove to be incorrect and could cause actual results to differ materially from those projected. Please refer to the King Operating Partners II LP Confidential Private Placement Memorandum dated October 29, 2024, and as amended December 9, 2024, for a description of some of the risks and uncertainties to which the foregoing financial illustrations are subject.

VI. Attached is the Revised and Restated Executive Summary for the Partnership.

Exhibit F

Executive Summary

King Operating Partners III, LP

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KING OPERATING CORPORATION
INTRODUCING A UNIQUE
INVESTMENT STRATEGY
KOPIII

DISCLOSURE INFORMATION

This document contains forward-looking statements as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934, including projections, estimates, and assumptions about our business, oil and gas reserves, exploration and development plans, and market conditions. These statements can be identified by terms like “may,” “will,” “expect,” “estimate,” “believe,” and similar expressions. Such statements are subject to risks and uncertainties, and actual results may differ materially due to factors like economic conditions, price volatility, regulatory changes, drilling risks, and market dynamics.

Investors should not rely solely on these forward-looking statements, as they are speculative and subject to change. The partnership intends to develop its properties, but revenue from new wells may take time due to factors like permitting, funding, and service availability. There may also be a delay in receiving payments for oil or gas sold. We undertake no obligation to update these statements unless required by law.

This document is not an offer to sell or a solicitation to buy securities. Investments involve risks, including the potential loss of capital, and should only be considered after reviewing the Confidential Private Placement Memorandum (PPM), which contains important investment details, risks, and terms. Oil and gas prices can be volatile, and the partnership has no control over pricing. Past performance is not indicative of future results.

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WHY OIL & GAS?

THE OIL AND GAS SECTOR REMAINS A SOLID INVESTMENT, ESPECIALLY WITH CONSISTENT GLOBAL DEMAND AND GEOPOLITICAL TENSIONS.

- Oil prices are expected to stay in the $60-80/bbl range in 2025, driven by supply-demand dynamics and geopolitical risks, while natural gas remains critical for global energy needs.
- Returns on investments in renewable energy are decreasing, with reduced profitability and less capital flowing into the sector compared to oil and gas.
- The growing demand for data centers and energy infrastructure in emerging markets increases the need for reliable **oil and gas supplies.**

WHY KING?

2 0 0 + Y E A R S O F C O M B I N E D E X P E R I E N C E

Founded in 1996, King Operating Corporation is an experienced independent oil and gas operating company with a wealth of over 200 combined years of industry experience developing and producing oil and gas fields across several states. We are committed to creating value for our investors by offering opportunities for tax advantages, monthly passive income, and a potential multiple on invested capital.

K I N G O P E R A T I N G C O R P O R A T I O N

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WHY KING?

KING STRATEGY

SCALE IT AND SELL IT™ FOR A MULTIPLE

KOPX is a unique investment vehicle for accredited[1] investors forecasting to …

- **Reduce your tax liability**
- **Achieve monthly distributions**
- **Receive a potential ROI multiple on exit**

[1] Accredited: >$1M net worth or $200k+ individual (or $300k+ married) income for the last 2 years with the expectation of the same for the current year

Acquire → Develop → Divest

Multiple oil and gas assets are acquired, developed, and divested to help mitigate risk while maximizing diversified financial value in the development of oil and gas assets.

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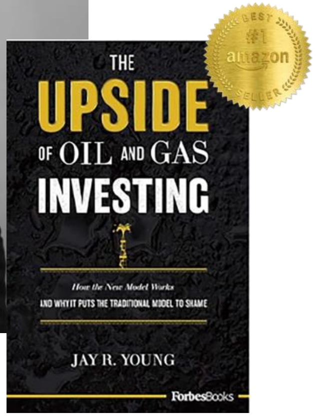
COMPANY LEADERSHIP

JAY R. YOUNG, FOUNDER & CEO

With over two decades of experience, Jay has earned a reputation for his strategic foresight and entrepreneurial leadership in the energy sector. He is also the Amazon #1 Best-Selling author of “The Upside of Oil and Gas Investing,” a Forbes Books publication that shares his deep insights into the industry.



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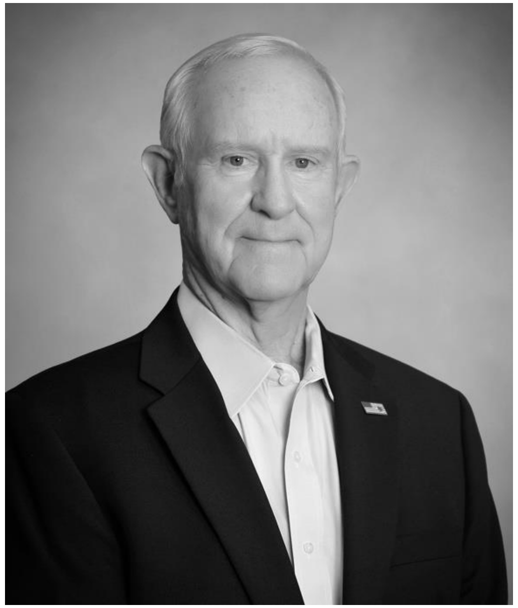
OUR TEAM

200+ YEARS COMBINED

COO Steve Mullican, EVP of Operations Kelly Duncan, EVP of Land and Business Development Bill Phillips, Geologist Mark Ayers, Production Advisor Ryan Goeres,, Senior Geoscientist Blake Gillespie, and Land Manager Aaron Ledyard have more than 200 years of combined experience in the oil and gas industry.

Steve Mullican, Chief Operating Officer

Kelly Duncan, EVP, Operations



Bill Phillips, EVP, Land & Bus. Development

Mark Ayers, Geologist

Ryan Goeres, Production Advisor

Blake Gillespie, Senior Geoscientist

Aaron Ledyard, Land Manager

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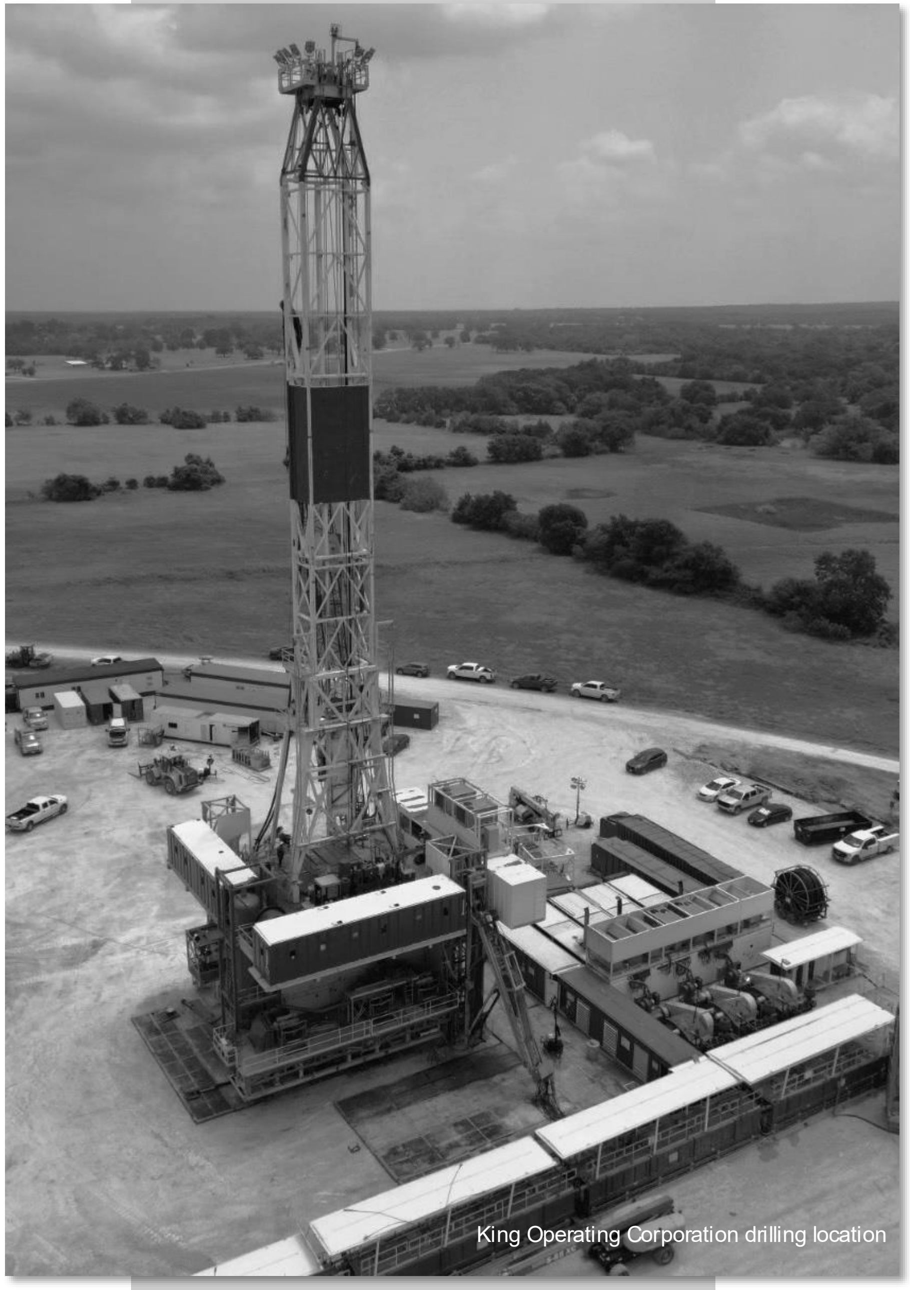

WHY KOPIII?

OIL & GAS DRILLING & SERVICES

Up to **2.8x** (Management Case Forecast)

$125M tax-advantaged, income-producing, limited partnership opportunity in oil and natural gas with the potential to return up to 2.8x to Partners in 3-5 years **assuming the fully subscribed fund is closed** through production and divestiture of partnership's assets valued at approximately $350MM net to Partners.

ASSET DEVELOPMENT THROUGH PARTNERSHIPS

BUY OILFIELD SERVICES: SAND PLANTS

2025	2026	2027	2028-2029
• Raise $125 million. • Drill 14 wells and purchase sand plants. • Begin sending out revenue asap.	• Partners to receive 2025 tax benefits. • Continue sending out distributions.	• The value of the asset, if sold, potentially is worth a 1.7-2.2x multiple.	• The value of the asset, if sold, potentially is worth a 2.2-2.8x multiple.

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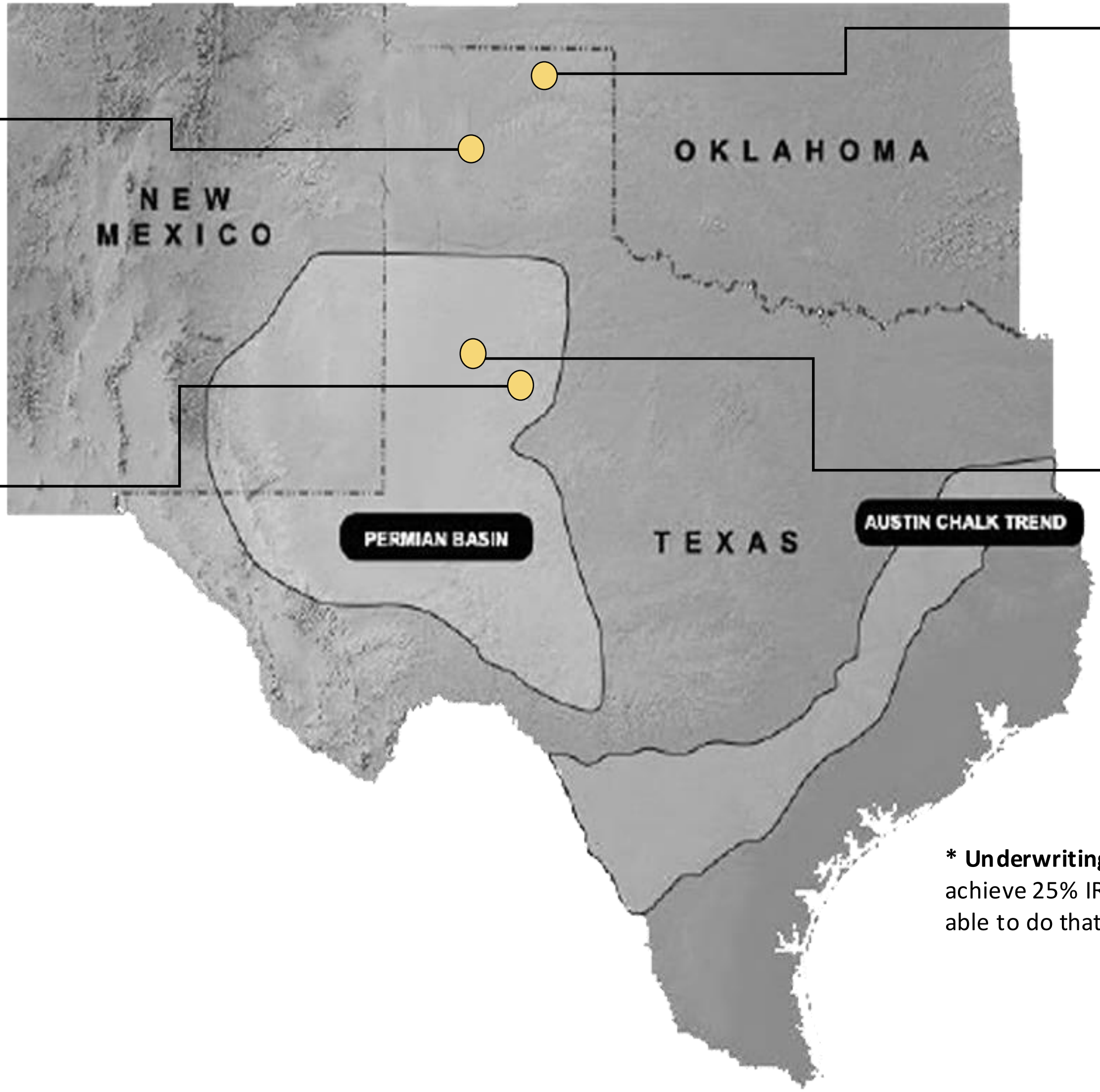
WHY KOPIII?

TARGETED DRILLING LOCATIONS

Sunlight — Bivins Ranch
- Over 60,000 contiguous acres
- Multi-well horizontal drilling program commencing 12/2024
- 348-square-mile 3D license and infrastructure
- Canyon Lime Formation
- **Over 100% IRR**
- Up to four wells

Fisher County
- Currently partnering in four wells with Browning and Cholla
- Reviewing additional acreage in the area
- Goen Limestone Formation
- **> 90% IRR**



Mid-Continent
- ~ 17,000 acres
- Horizontal and vertical wells
- Operates in 7 counties in
- Western Anadarko Basin
- **> 50% IRR**
- Two to four wells

Vesuvius — Hockley County
- 3,700 contiguous acres
- Multi-well horizontal drilling program commencing 11/2024
- San Andres Formation
- **> 100% IRR**
- Two to four wells

* **Underwriting Assumptions:** We target prospects that we believe achieve 25% IRR (Internal Rate of Return) and a 3x multiple. If we are able to do that, then these are the potential returns at a portfolio level.

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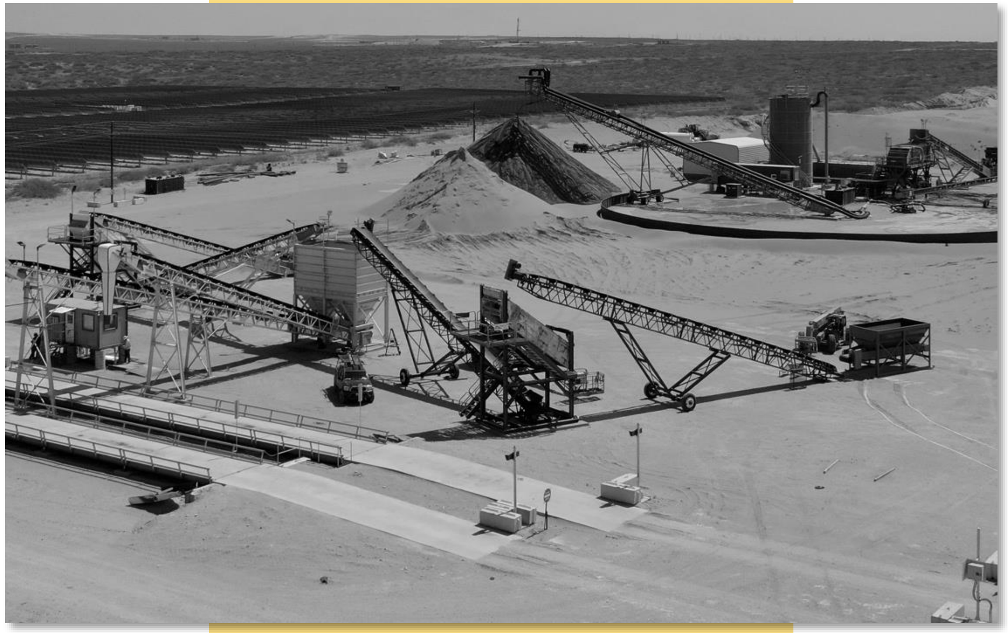

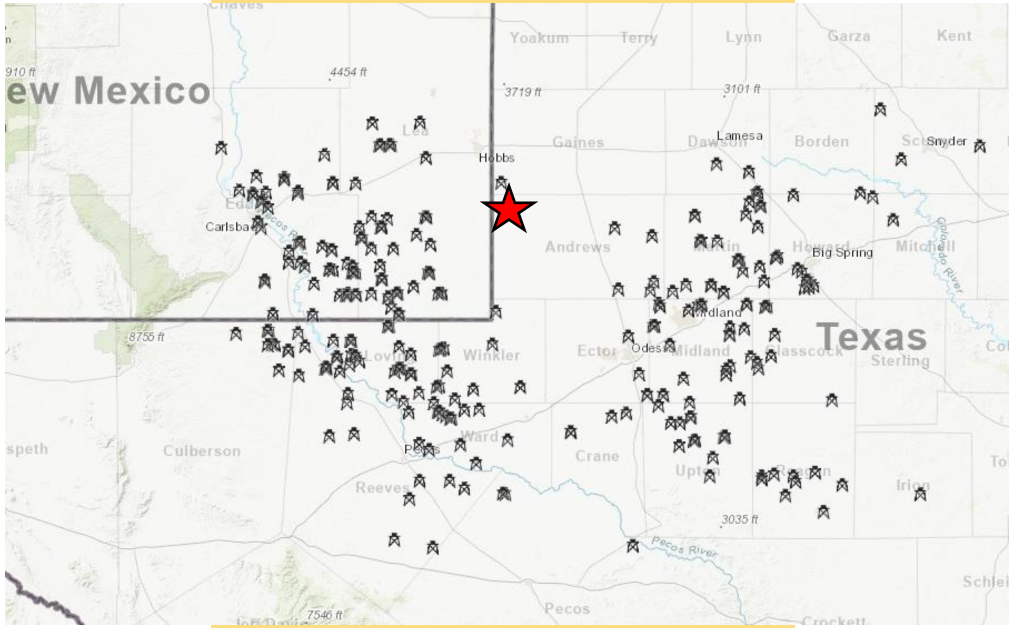

WHY KOPIII?

SAND PLANTS

Frac sand plays a crucial role in the oil and gas industry, particularly with horizontal drilling, which has revolutionized extraction methods for oil and natural gas.

Strategic Growth

• Plans for diversification with frac sand locations in key U.S. drilling regions, including the Permian Basin.

Why This Expansion Makes Sense

• Strategic positioning near active drilling sites ensures efficient, cost-effective sand delivery.

• Meeting growing demand. The Permian has a demand alone of 71 million tons of frac sand per year.

The Benefits of Our Strategy

• **Value:** The asset value of the sand plants could potentially appreciate.

• **Improved supply chain efficiency:** Reduces freight costs and time by locating near drilling sites.

• **Attractive investment:** Tapping into high-demand markets across the U.S. for strong returns.

Sand Plant location

Rigs operating in the area

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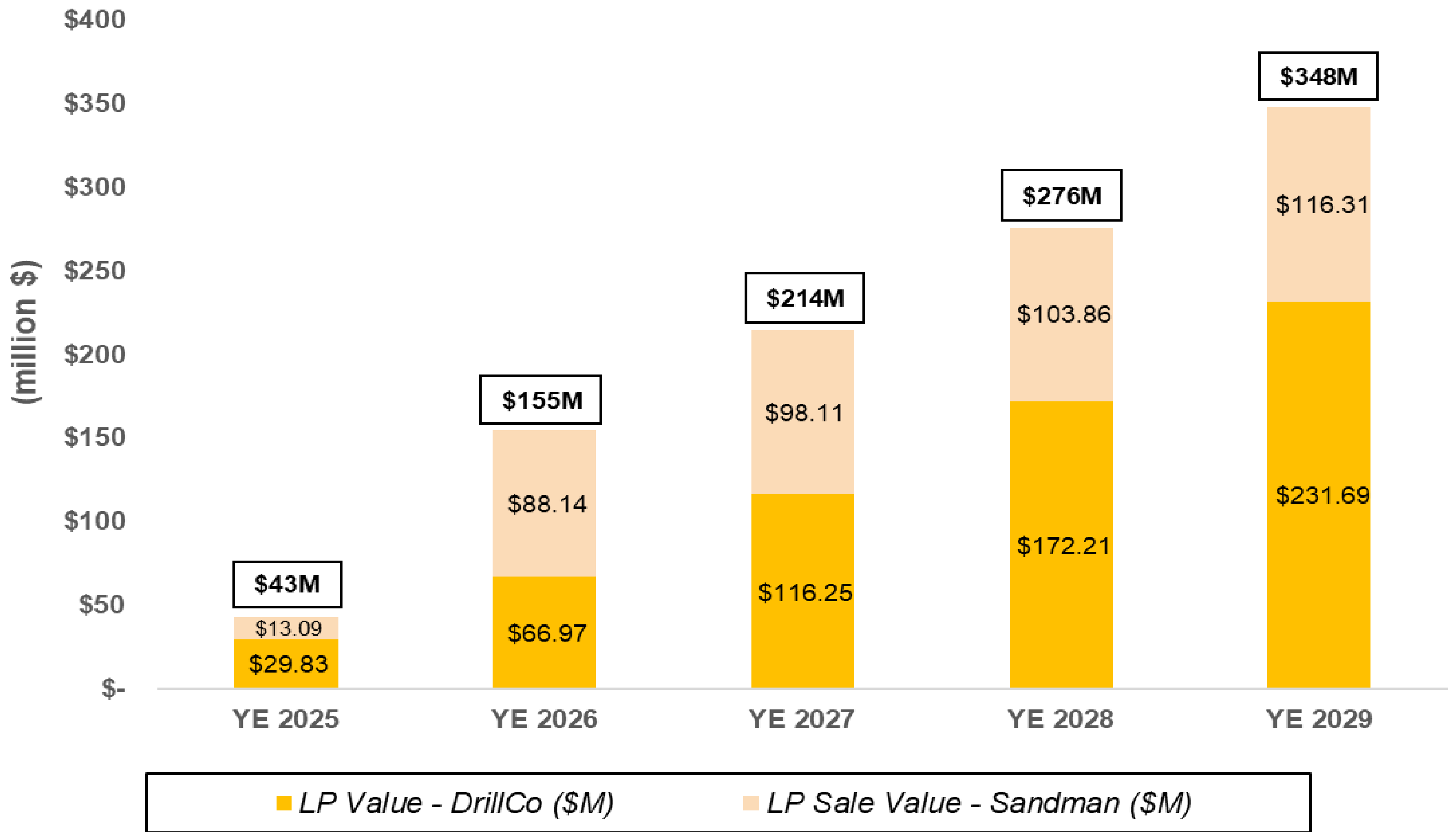
WHY KOPIII?

RETURN PROFILE



DISCLOSURE: The foregoing financial illustrations and projections are “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and are based on numerous variables and assumptions which, although believed in good faith to be reasonable, may prove to be incorrect and could cause actual results to differ – perhaps materially – from those projected. Please refer to the King Operating Partners III LP Confidential Private Placement Memorandum, for a description of some of the risks and uncertainties to which the foregoing financial illustrations are subject. Potential peakmeans best case.

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WHY KOPIII?

ACHIEVE VALUE IN THREE WAYS

REDUCED TAX BURDEN

Up to

100% Deduction
(Over Life of Partnership)

Reduce rate of taxation

Reduce tax burden in Year 1 by as much as **$52,000.***

This estimate does not represent a promise or guarantee. Consult your tax professional for tax advice.

MONTHLY DISTRIBUTIONS

DOWNSIDE TARGET AVERAGE

9%

14%

** Monthly Distribution target averages are based upon information available at this time. These figures are subject to change based upon numerous factors, including, but not limited to, drilling results, production volumes, expenses, and commodity pricing.*

UPSIDE POTENTIAL MULTIPLE ON EXIT

2.8x

$560K

$200K

2025

2029

** Multiple on Exit projections are based upon information available at this time. These figures are subject to change. Please see the variables and assumptions made on the projected net operating cash flow slide.*

DISCLOSURE: The foregoing financial illustrations are "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are based on numerous variables and assumptions which, although believed in good faith to be reasonable, may prove to be incorrect and could cause actual results to differ materially from those projected. Please refer to the King Operating Partners III LP Confidential Private Placement Memorandum dated October 29, 2024, as amended or supplemented, for a description of some of the risks and uncertainties to which the foregoing financial illustrations are subject. Possible 100% tax deduction occurs over the term of the investment. It is not all a first-year deduction. It derives from: intangible drilling costs; Section 168(k) bonus depreciation deduction for qualified assets; regular depreciation deductions; depletion deductions; and associated fees as a current year deduction. These deductions reduce the Partner's tax basis in KOPIII on a pro rata basis for utilization with regard to a divestiture of Partnership assets.

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WHY KOPIII?

BREAKDOWN OF ASSETS

O&G

80%

- Up to 100% Tax Deduction Over Time*
- Monthly Distributions
- Multiple on Exit

SAND

20%

- Deferred Taxable Income
- Increased Monthly Distributions
- Increased Multiple on Exit

*Refer to the disclosure notice on the previous page.

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WHY KOPIII?

PROJECTED SENSITIVITY ANALYSIS

PROJECTED ASSUMPTIONS	$50 Oil/$3 Gas	$60 Oil/$3.50 Gas	$70 Oil/$4 Gas	$80 Oil/$4.50 Gas
Potential Peak Production (BOE/d)	**5,343**	**5,343**	**5,343**	**5,343**
Potential Avg 5-yr Monthly Distributions	**15.96%**	**27.87%**	**29.69%**	**31.56%**
Net Potential Total Value	**$320MM**	**$328MM**	**$348MM**	**$369MM**
Potential ROI on Invested Capital	**2.56x**	**2.62x**	**2.78x**	**2.95x**

DISCLOSURE: The foregoing financial illustrations and projections are “forward looking statements” within the meaning of the Private Se curities Litigation Reform Act of 1995 and are based on numerous variables and assumptions which, although believed in good faith to be reasonable, may prove to be incorrect and cou ld cause actual results to differ – perhaps materially – from those projected. Please refer to the King Operating Partners III LP Confidential Private Placement Memorandum, dated October 28, 20 24, for a description of some of the risks and uncertainties to which the foregoing financial illustrations are subject. Potential peak means best case.

© King Operating Corporation

ADVANTAGES OF KING

HOW WE STAND APART

TYPICAL O&G COMPANIES	KING OPERATING CORPORATION
✓ Tax Benefits	✓ Tax Benefits
✓ Passive Income	✓ Passive Income
✗ Monthly Distributions (Most do Quarterly)	✓ Monthly Distributions
✗ Exit Strategy	✓ Exit Strategy
✗ Diversification	✓ Diversification
✗ Target Hold 3-5 Years	✓ Target Hold 3-5 Years

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OUR VALUE

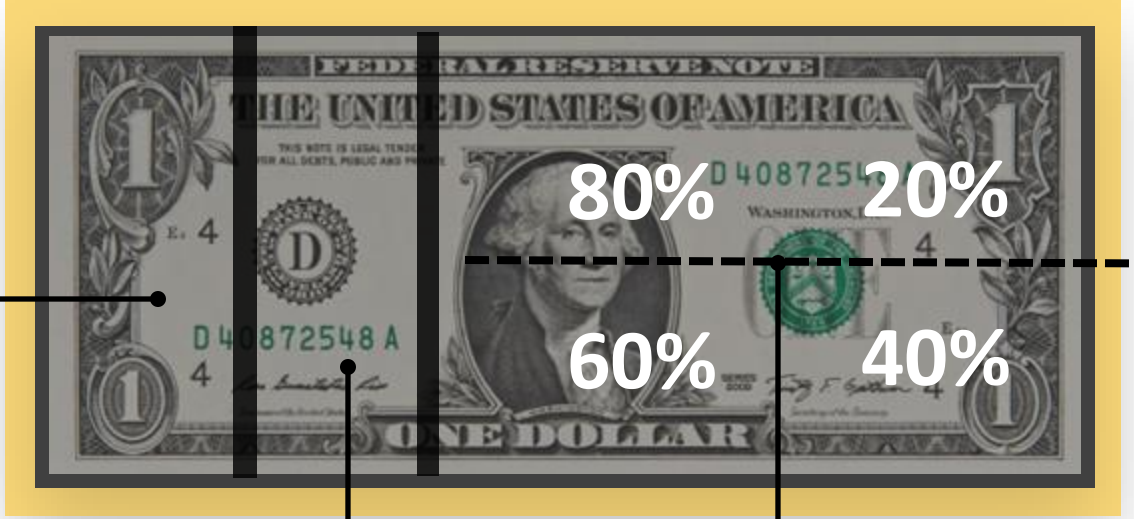
MONTHLY DISTRIBUTIONS

The forecasted Monthly Distribution is calculated using a formula that includes 3 simple elements: price, production, and expenses.

*** WE DO NOT CHARGE A MANAGEMENT FEE OR AN OPERATOR FEE.**

OIL & GAS SOLD TO "FIRST PURCHASERS"

Think of a first purchaser as a wholesaler. While the published market price for a unit of a gas or oil resource is close to what a first purchaser pays, there is a discount due to transportation and processing fees. They buy the raw resources produced.



RETURN OF INITIAL INVESTMENT

ROYALTY OWNER MINERAL INTERESTS

Landowners (private citizens, non-federal) make drilling possible by leasing the rights to drill to the Partnership.

LEASE OPERATING EXPENSES

Lease Operating Expenses (aka LOEs) represent the expenses to produce the resources.

NET OPERATING CASH FLOW

After owner mineral interests and LOEs, net operating cash flow will be distributed to King and its Partners, as available on an 80/20 split until Partner return of capital and then the split is a waterfall to 60/40.

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OUR VALUE

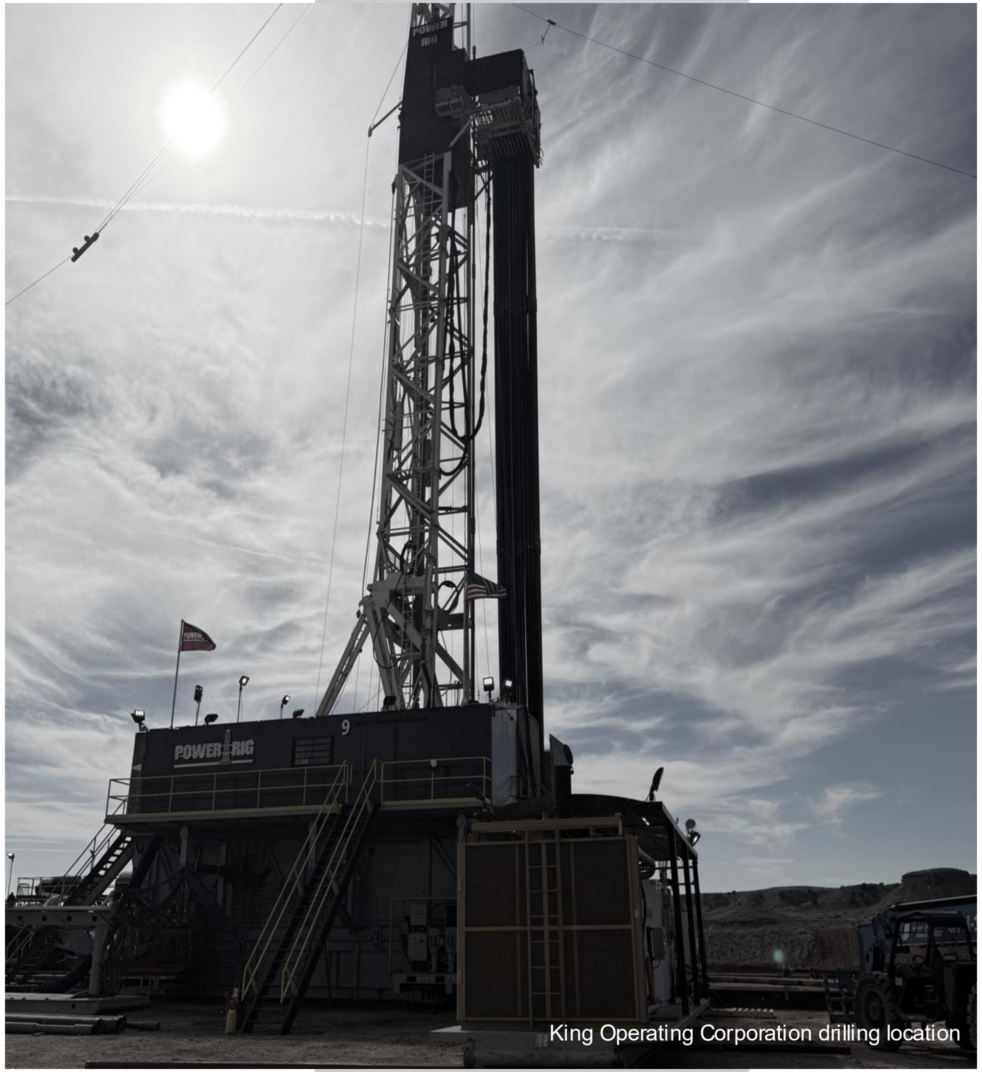
DIVESTITURE METHODOLOGY

ACHIEVE AN EXIT

Divestiture(s) may deliver accelerated and amplified value.

BUYERS

INCOME	Institutions, pensions, family offices, RIAs, and other similar organizations value income producing assets where most of the risk has been mitigated and still have developable upside. King oil and gas assets make for a suitable fit for this type of buyer.
PRODUCERS	Other producers who work analogous fields within their own basins of focus achieve scale through acquisitions of proven and undeveloped fields.
OILFIELD SERVICES	Plans for diversification with frac sand locations in key U.S. drilling regions, including the Permian Basin, tapping into high-demand markets across the U.S. for strong returns.



King Operating Corporation drilling location

KING OPERATING CORPORATION

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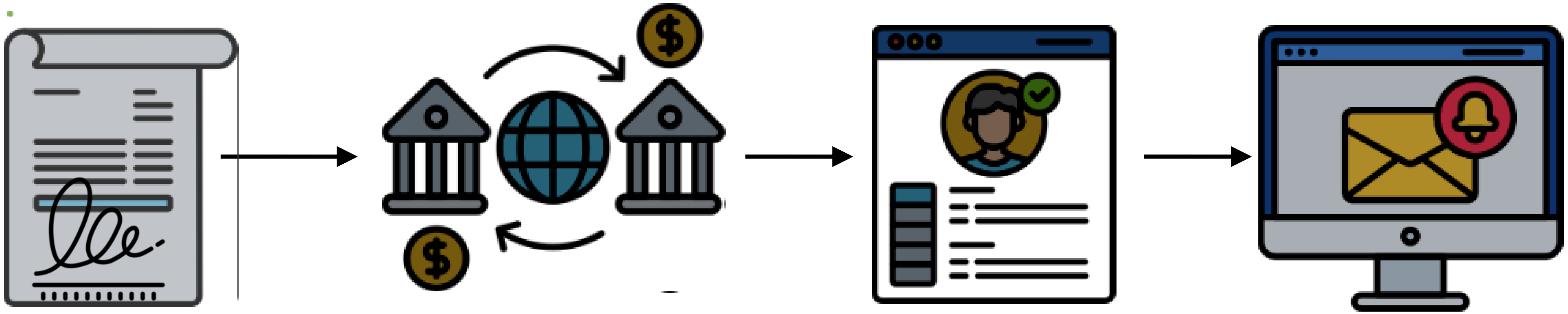
NEXT STEPS

TAKE A POSITION TODAY



SUBSCRIBE

- Review Private Placement Memorandum
- Complete Subscription Documentation

WIRE FUNDS

- Receive Confirmation
- Send Letter of Third-Party Accreditation (LOA)

PORTAL

- Receive access within 30 days of Subscription
- View Investment Position, Monthly Statements, K-1s

UPDATES

- 2-Minute Drill Weekly Videos
- Monthly Insider Newsletter
- Monthly Formal Updates from the Executive Team

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