

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION**

**APPLICATIONS OF TEXAS STANDARD OPERATING
NM LLC FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO**

CASE NOS. 23823-23824

**ARMSTRONG ENERGY CORP. AND
SLASH EXPLORATION, LP'S EXHIBIT
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Exhibit A	Self-Affirmed Statement of Kyle A. Armstrong
A-1	Email communications between K. Armstrong and Texas Standard Operating NM LLC

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ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATIONS OF TEXAS STANDARD
OPERATING NM LLC FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO**

CASE NOS. 23823-23824

SELF-AFFIRMED STATEMENT OF KYLE A. ARMSTRONG

1. I am President and Chief Executive Officer of Armstrong Energy Corporation (“Armstrong”) and Slash Exploration Limited Partnership (“Slash”). I have a bachelor’s degree from Georgetown University and a law degree from the University of Pennsylvania School of Law. I have served as President of the Independent Petroleum Association of New Mexico, sat on the Oil & Gas Advisory Committee to the New Mexico State Land Office, and have worked in the petroleum industry for 8 years. I am over 18 years of age, have personal knowledge of the matters addressed herein, and am competent to provide this Self-Affirmed Statement.

2. I am familiar with the matters involved in the above-referenced cases.

3. Armstrong was established in 1977 and has participated in over 600 wells across several states and is the current operator of nearly 100 properties. It also owns non-operated interests in more than 400 properties and holds more than 80,000 acres of leasehold interests.

4. Slash was established in 2006 and owns leasehold interests throughout southeastern New Mexico. Armstrong is the general partner of Slash.

5. In Case No. 23823, TSO seeks an order pooling uncommitted interests in the Upper Penn Shale formation underlying the W/2 SE/4 of Section 11, W/2 E/2 of Section 14, and W/2 NE/4 of Section 23, Township 17 South, Range 36 East and proposes to dedicate the unit to the Lap Dog State No. 1H and 2H Wells.

**Armstrong Energy Corp. and Slash Exploration LP,
Case No. 23823-23824
Exhibit A**

6. In Case No. 23824, TSO seeks an order pooling uncommitted interests in the Upper Penn Shale formation underlying the E/2 SE/4 of Section 11, E/2 E/2 of Section 14, and E/2 NE/4 of Section 23, Township 17 South, Range 36 East and proposes to dedicate the unit to the Lap Dog State No. 3H and 4H Wells.

7. Armstrong and Slash objected to these matters proceeding by affidavit, and on March 22, 2024, the Division issued a prehearing order setting the cases for a contested hearing on May 16, 2024.

8. Slash owns the lease that includes the NE/4 of Section 23 within TSO's proposed spacing units. *See* TSO Exhibit 2-B. Thus, Slash owns 80 acres—25%—of the working interest in each of TSO's proposed spacing units. Armstrong owns operating rights under the lease.

9. Slash owns far more of the interest in TSO's proposed spacing units than TSO. According to TSO's exhibits, it only owns an 8.57% working interest in its proposed spacing unit in Case No. 23823 and 7.84% of the working interest in its proposed spacing unit in Case No. 23824. *See* TSO Exhibit 2-B. TSO seeks to pool all other interests, which amount to 91.43% of the working interest in Case No. 23823 and 92.16% of the working interest in Case No. 23824. Thus, TSO failed to reach voluntary agreements with over 91% of the interest owners in these cases, including Slash.

10. Based on my experience, it is very unusual for an operator to pool over 90% of the working interests in a spacing unit. Typically, an operator who negotiates in good faith to reach voluntary agreements is able to acquire more than a 10% interest in a proposed spacing unit. In my opinion, TSO's failure to reach agreements with most of the interest owners in its spacing units, including Slash, demonstrates a lack of good faith negotiation.

11. Slash attempted to negotiate with TSO regarding these matters for months but TSO refused to offer market rates for Slash's significant interest in the spacing units. Specifically, TSO refused to agree to a per-acre cash bonus to lease Slash's interest, which is standard in this area and environment. As proposed by Slash, the cost to lease Slash's 160 acres at \$1,000/acre would be \$160,000.00, or at \$750/acre it would be \$120,000. In the last six months of 2023, leases in the same township and range were purchased from \$250/acre up to \$3,800/acre.

12. Despite these facts, TSO concluded it could not afford to pay a bonus and "[had] to pool everyone to drill the unit anyway." TSO Exh. 2-E. This is highly concerning given that TSO proposes to drill four horizontal wells that will cost \$12.5 million each. *See* TSO Exh. 2-D.

13. During the negotiations, I made counterproposals to TSO and explained that a no-bonus term assignment on acreage held by production is not standard in the current market. In fact, as I conveyed to TSO, to the best of my recollection all of the lease agreements Armstrong and Slash have entered into in the past 5-10 years have involved a cash bonus. *See* email correspondence, attached as Exhibit A-1.

14. When TSO would not engage in further discussions, I informed them that Slash would carve out an overriding royalty interest if necessary and even sent TSO the proposed assignment on April 29th. I also informed TSO that based on the override assignment, Slash and Armstrong would withdraw their objection to these cases proceeding by affidavit.

15. TSO did not respond, and as a result, Slash carved out an 11.25% overriding royalty interest to make up for the lack of bonus. Given the significance of Slash's interest in the proposed units and TSO's refusal to pay market rates, the royalty assignment was reasonable and necessary to protect Slash's correlative rights. The royalty interest was not assigned to preclude TSO from


pooling its proposed spacing units and does not rise to the level that would render the wells uneconomic.

16. Slash has continued to be willing to negotiate with TSO in good faith and agrees to amend its ORRI to provide TSO with a 70% net royalty interest. Slash would also be willing to agree that its acreage be removed from TSO's proposed spacing units.

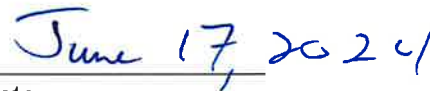
17. Because Slash appropriately carved out an override that would protect its interest, Slash and Armstrong withdrew their objection to these cases proceeding by affidavit on May 16, 2024. At no time prior to filing its Prehearing Statement did TSO notify Slash that it was concerned about the assignment or would effectively seek to invalidate it.

18. In my opinion, given Slash's significant financial interest in TSO's proposed units, it would violate Slash's correlative rights, and would not be just or reasonable, for the Division to disregard Slash's ORRI.

19. I understand this Self-Affirmed Statement will be used as written testimony in the subject cases. I affirm that my testimony above is true and correct and is made under penalty of perjury under the laws of the State of New Mexico. My testimony is made as of the date handwritten next to my signature below.



Kyle A. Armstrong



Date

From: kaa <kaa@aecnm.com>
Sent: Thursday, October 12, 2023 11:44 AM
To: Matt Roberson <matt@txsoil.com>
Cc: kklein <kklein@aecnm.com>
Subject: Re: Lap Dog State #H- 4H wells

Matt,

Just circling back on this. We do have a number of folks willing to accept at that level.

Kyle A. Armstrong

Armstrong Energy Corporation

PO Box 1973

Roswell, NM 88202

575-623-2999 x 328 (Direct)

505-250-6677 (Cell)

kaa@aecnm.com



From: Matt Roberson <matt@txsoil.com>
Sent: Monday, October 2, 2023 8:37 AM
To: kaa <kaa@aecnm.com>
Cc: kklein <kklein@aecnm.com>
Subject: RE: Lap Dog State #H- 4H wells

[CAUTION: This email originated from outside Armstrong Energy Corp. Do not click links or open attachments unless you recognize the sender and know the content is safe]

Thank you Kyle, we're working on a budget for these leases. I hope to get back to you before long.

Thanks,

Matt Roberson, RPL

**Armstrong Energy Corp. and Slash Exploration LP,
Case No. 23823-23824**

Land Manager
Texas Standard Oil LLC
Office: 432-789-1745
Cell: 713-828-9306

From: kaa <kaa@aecnm.com>
Sent: Tuesday, September 26, 2023 3:17 PM
To: Matt Roberson <matt@txsoil.com>
Cc: kklein <kklein@aecnm.com>
Subject: Re: Lap Dog State #H- 4H wells

Matt,

Sorry for the delay in getting back to you.

Given the prices that leases are going for in the area, I am inclined to stay at \$1,000/nma. In the interest of getting things expedited though, a good number of the Roswell-based companies and individuals would also agree to that rate. So it would at least help facilitate getting some of this wrapped up.

Let me know how you would like to proceed.

Best,

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Armstrong Energy Corporation

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505-250-6677 (Cell)

kaa@aecnm.com



From: Matt Roberson <matt@txsoil.com>
Sent: Thursday, September 21, 2023 8:26 AM

To: kaa <kaa@aecnm.com>
Cc: kklein <kklein@aecnm.com>
Subject: RE: Lap Dog State #H- 4H wells

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Good morning Kyle, thanks for checking back in about this. We do have David petroleum on the ownership list due to an assignment with somewhat unclear conveyance language. However, I've had my landmen look back into it and, because you aren't the first to mention this to us, we are in the process of adjusting that chain of ownership that should reflect his outsale. There shouldn't be any new names added to the pooling list.

As for our counter offer, I was hoping that we could bring the bonus down to around \$750/acre. The plan is to drill 4 wells on 2 pads and then zipper frac them so we shouldn't have any issues with continuous drilling. Depth severance works for us. Do you have a TA form that you like to use?

And please feel free to call if you have any questions or want to discuss over the phone. I'm always available on my cell phone.

Thanks,

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Understood, just wanted to make sure we kept the conversation going. Look forward to hearing from you.

BTW I notice you have David Petroleum on the list. They no longer have their interest— not sure who picked up that particular acreage.

Kyle A. Armstrong

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kaa@aecnm.com



From: Matt Roberson <matt@txsoil.com>
Sent: Tuesday, September 19, 2023 1:19 PM
To: kaa <kaa@aecnm.com>
Cc: kklein <kklein@aecnm.com>
Subject: RE: Lap Dog State #H- 4H wells

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Kyle, I apologize for taking so long to get back to you. Yes we are interested in the term assignment offer and have been discussing a counter for you, in fact, I spoke with Tim about it again this morning. I will hopefully be able to get back to you on that tomorrow. As for the pooling, unfortunately this unit has 19 other interest owners in it so I just have to pool everyone up front and as we make agreements, take people off the list. Quite a few people that I never heard back from.

Thanks,

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Texas Standard Oil LLC
Office: 432-789-1745
Cell: 713-828-9306

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Cc: kklein <kklein@aecnm.com>
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Good afternoon Matt,

I'm in receipt of the force pooling notice from James Bruce regarding these wells. Have you all discussed a term assignment yet?

Regards,

Kyle A. Armstrong

Armstrong Energy Corporation

PO Box 1973

Roswell, NM 88202

575-623-2999 x 328 (Direct)

505-250-6677 (Cell)

kaa@aecnm.com



From: Matt Roberson <matt@txsoil.com>

Sent: Friday, August 25, 2023 7:39 AM

To: kaa <kaa@aecnm.com>

Cc: kklein <kklein@aecnm.com>

Subject: RE: Lap Dog State #H- 4H wells

[CAUTION: This email originated from outside Armstrong Energy Corp. Do not click links or open attachments unless you recognize the sender and know the content is safe]

Good to hear from you Kyle,

I appreciate that catch, you are correct. I've attached an updated AFE packet. I'll take this TA offer to the guys and see if we can't get a deal done soon. And I hope so too!

Thanks,

Matt Roberson, RPL

Land Manager

Texas Standard Oil LLC

Office: 432-789-1745

Cell: 713-828-9306

From: kaa <kaa@aecnm.com>

Sent: Thursday, August 24, 2023 5:51 PM

To: Matt Roberson <matt@txsoil.com>

Cc: kklein <kklein@aecnm.com>

Subject: Lap Dog State #H- 4H wells

Matt,

I am in receipt of Texas Standard's well proposals to Slash Exploration LP for the Lap Dog state wells, covering Slash's HBU leasehold in the NE/4 of Section 23-T17S-R36E. I did want to note that the description of the proposed unit on the AFE is probably incorrect (should be the W/2NE/4 of Section 23, not the W/2SE/4).

Given Slash's current operations and drilling obligations, we are not interested in participating at this time. Slash is willing to make a 3-year term assignment with customary continuous drilling obligations, to include a horizontal pugh clause, as well as depth severance at the base of the lowest producing interval, for \$1000/acre and reserving as an override the difference between a 75 NRI and all existing leasehold burdens. This is pretty standard for what we have received in the area.

If those terms are acceptable, please let me know and we can begin working up the term assignment paperwork.

Please give my regards to your dad and hope you all get some successful wells drilled!

Kyle A. Armstrong

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kaa@aecnm.com



From: kaa <kaa@aecnm.com>
Sent: Thursday, October 26, 2023 11:24 AM
To: Matt Roberson <matt@txsoil.com>
Cc: kklein <kklein@aecnm.com>
Subject: Re: Lap Dog State #H- 4H wells

Matt,

A no-bonus term assignment on HBP acreage is not standard in the current market. I would be really hard pressed to recall doing a non-cash deal in the last 5-10 years. Perhaps on leasehold that is about to expire, but certainly not on HBP acreage.

I don't know what you mean by alternative deal, but if you have something to throw out, I will certainly consider it. But absent something that actually makes sense for my acreage, we'll move forward with contesting the force pooling, as will a number of other parties.

Kyle A. Armstrong
Armstrong Energy Corporation
PO Box 1973
Roswell, NM 88202
575-623-2999 x 328 (Direct)
505-250-6677 (Cell)
kaa@aecnm.com



From: Matt Roberson <matt@txsoil.com>
Sent: Thursday, October 26, 2023 10:22 AM
To: kaa <kaa@aecnm.com>
Cc: kklein <kklein@aecnm.com>
Subject: RE: Lap Dog State #H- 4H wells

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Morning Kyle, I hope you're doing well.

We're trying to keep our hearing date close at hand so in the event that we do wrap up our multiple

dealings that we can go ahead and pool the many uninterested parties as soon as possible. I apologize for my lack of response.

I've gone back and forth with Tim and Charley over the past couple of weeks on this and we've just come to the conclusion that due to the leases and interests that we've gotten on an override-only basis that we are unwilling to pay bonus money for term assigned tracts, especially when we have to pool everyone to drill the unit anyway. We have done many kinds of deals in the past in order to pick up land so I'm hoping that we can work on an alternative to bonus on this one as well. We will have 4 wells producing across the quarter section there so our costs are already very high, but so will be cash flow.

Thanks,

Matt Roberson, RPL
Land Manager
Texas Standard Oil LLC
Office: 432-789-1745
Cell: 713-828-9306

From: kaa <kaa@aecnm.com>
Sent: Wednesday, October 25, 2023 11:12 AM
To: Matt Roberson <matt@txsoil.com>
Cc: kklein <kklein@aecnm.com>
Subject: Re: Lap Dog State #H- 4H wells

Good morning Matt. Still waiting on a response on this, and we are less than a week from the force pooling hearing. I had a call from another party this morning. Their intent is to enter an appearance to contest this next week, and we intend to do the same.

We have people that are willing to work in good faith to come to an agreement, but there is an unwillingness to simply be force pooled.

Regards,

Kyle A. Armstrong
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575-623-2999 x 328 (Direct)
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kaa@aecnm.com



From: Matt Roberson <matt@txsoil.com>
Sent: Monday, October 16, 2023 7:44 AM
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Cc: kklein <kklein@aecnm.com>
Subject: RE: Lap Dog State #H- 4H wells

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Thanks for following up Kyle, I am still working on this – spoke with charley this morning about it.

Thanks,

Matt Roberson, RPL
Land Manager
Texas Standard Oil LLC
Office: 432-789-1745
Cell: 713-828-9306

From: kaa <kaa@aecnm.com>
Sent: Thursday, October 12, 2023 12:45 PM
To: Matt Roberson <matt@txsoil.com>
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Thank you Kyle, we're working on a budget for these leases. I hope to get back to you before long.

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Let me know how you would like to proceed.

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And please feel free to call if you have any questions or want to discuss over the phone. I'm always available on my cell phone.

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Cc: kklein <kklein@aecnm.com>

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Kyle A. Armstrong

Armstrong Energy Corporation

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Roswell, NM 88202

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505-250-6677 (Cell)

kaa@aecnm.com



From: kaa <kaa@aecnm.com>
Sent: Monday, April 29, 2024 4:03 PM
To: Matt Roberson <matt@txsoil.com>; tim@txsoil.com <tim@txsoil.com>
Cc: kklein <kklein@aecnm.com>
Subject: Fw: VC-2907 Assignment of Overriding Royalty

Matt and Tim,

Just an FYI, we are making the attached assignment of overrides and will subsequently withdraw our objection to your Lap Dog State wells. I wish you the best of luck on them, hopefully they turn out to be good wells.

Best regards,

Kyle A. Armstrong

Armstrong Energy Corporation

PO Box 1973

Roswell, NM 88202

575-623-2999 x 328 (Direct)

505-250-6677 (Cell)

kaa@aecnm.com



From: kklein <kklein@aecnm.com>
Sent: Monday, April 29, 2024 3:41 PM
To: kaa <kaa@aecnm.com>
Subject: Fw: VC-2907 Assignment of Overriding Royalty

From: valvarado <valvarado@aecnm.com>
Sent: Monday, April 29, 2024 3:28 PM
To: kklein <kklein@aecnm.com>
Subject: VC-2907 Assignment of Overriding Royalty

Veronica Alvarado

P.O. Box 1973

Roswell, NM 88202

(575) 623-2999 X 306

(575) 625-2222

(575) 622-2512 Fax

Valvarado@aecnm.com



This communication is confidential and intended only for the addressee. If you are not the intended recipient, you may not copy, disclose, or distribute this message to anyone else; any such actions may be unlawful. The company reserves the right to amend statements made herein in the event of a mistake. Unless expressly stated herein to the contrary, only agreements in writing signed by an authorized officer of the company may be enforced against it.

ASSIGNMENT OF OVERRIDING ROYALTY

STATE OF NEW MEXICO)

COUNTY OF LEA)

THAT **ARMSTRONG ENERGY CORPORATION** and **SLASH EXPLORATION LIMITED PARTNERSHIP**, whose mailing address is P.O. Box 1973, Roswell, NM 88202-1973, hereinafter COLLECTIVELY referred to as "Assignor", being the current owner of 100% of the Operating Rights and 100% Record Title in the oil and gas lease set forth on Exhibit "A" attached hereto and made a part hereof for all purposes ("Subject Lease"), for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby grant, assign, transfer and convey unto the following parties, overriding royalty interests as set forth below, insofar and only insofar as the Subject Lease covers the Subject Lands described on Exhibit "A" attached hereto;

Chimney Rock Oil & Gas, LLC PO Box 1973 Roswell, NM 88202	2.0% of 8/8ths
Armstrong Energy Corporation PO Box 1973 Roswell, NM 88202	2.0% of 8/8ths
Slash Exploration Limited Partnership PO Box 1973 Roswell, NM 88202	7.25% of 8/8ths

hereinafter collectively referred to as "Assignee", the interest set forth above, being overriding royalty interests for all oil and gas produced, saved and sold under the provisions of said Subject Leases and the lands covered thereby.

This Assignment of Overriding Royalty is made without covenants of warranty, either expressed, implied or statutory.

The overriding royalty interest herein conveyed shall be free and clear of all costs of development, operation, transportation, compression and other similar charges, but said interest shall bear and pay currently its portion of gross production taxes, severance taxes, pipeline taxes and all other taxes assessed against the gross production subject to said overriding royalty interest. If the Subject Leases covers less than the entire mineral estate in the lands covered thereby, or if Assignor owns less than the entire leasehold estate created by the Subject Lease and the lands covered thereby as of the effective date hereof, then the overriding royalty interest herein conveyed shall be proportionately reduced.

The overriding royalty interest assigned hereby may be pooled or unitized by Assignor without the consent of Assignee herein under the same terms and conditions as the royalty under said Leases may be pooled or unitized. In the event the Subject Lease does not provide for pooling or unitization, then Assignor may pool or unitize the

overriding royalty interest assigned hereby under terms and conditions as Assignor so desires.

This assignment shall not imply or require any leasehold preservation, drilling or development obligation on the part of Assignor. It is agreed however that the overriding royalty interest herein granted shall be applicable to any renewal, extension taken, acquired, or caused to be acquired by Assignor within a period of six (6) months from the termination of the Subject Lease as to the lands covered thereby and minerals covered and affected by said renewal, extension or new lease.

This Assignment of Overriding Royalty shall insure to the benefit of and be binding upon each of the individual parties hereto, their respective heirs, successors, legal representatives and assigns, and the rights and obligations of the parties hereto shall be deemed to be covenants running with the Lands.


The rights and obligations of each of the individual parties hereto are several and not joint or collective, the parties Assignor and Assignee having been grouped together for convenience purposes only.

This Assignment is made and accepted specifically subject to the terms and conditions of (i) each of the Subject Lease, (ii) all royalties, overriding royalties, and other similar burdens on the Subject Lease appearing of record.

This Assignment of Overriding Royalty is executed this 29th day of April, 2024, but effective for all purposes as of April 1, 2024.


ASSIGNOR:

ARMSTRONG ENERGY CORPORATION



Kyle A. Armstrong, President

**SLASH EXPLORATION LIMITED PARTNERSHIP,
by Armstrong Energy Corporation, its General Partner**



Kyle A. Armstrong, President

Exhibit A

Attached to and made a part of that certain Assignment of Overriding Royalty, dated effective April 1, 2024 between Armstrong Energy Corporation and Slash Exploration Limited Partnership, as Assignor, and Chimney Rock Oil & Gas, LLC, Armstrong Energy Corporation, and Slash Exploration Limited Partnership, as Assignee.

SUBJECT LEASE AND SUBJECT LANDS:

Lease No. VB-2907
Date: February 1, 2017
Lessor: The State of New Mexico
Original Lessee: Slash Exploration Limited Partnership
Recorded: Not Recorded
Covering: Township 17 South, Range 36 East, N.M.P.M.

Section 23: NE4

Containing 160 acres, more or less.