

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

APPLICATION OF GOODNIGHT  
MIDSTREAM PERMIAN LLC FOR APPROVAL  
OF A SALTWATER DISPOSAL WELL,  
LEA COUNTY, NEW MEXICO.

COMM. CASE NO. 24123

APPLICATIONS OF GOODNIGHT  
MIDSTREAM PERMIAN LLC FOR APPROVAL  
OF SALTWATER DISPOSAL WELLS,  
LEA COUNTY, NEW MEXICO.

DIV. CASE NOS. 23614-23617

APPLICATION OF GOODNIGHT  
MIDSTREAM PERMIAN, LLC TO AMEND  
ORDER NO. R-22026/SWD-2403 TO INCREASE  
THE APPROVED INJECTION RATE IN ITS  
ANDRE DAWSON SWD #1,  
LEA COUNTY, NEW MEXICO.

DIV. CASE NO. 23775

APPLICATIONS OF EMPIRE NEW MEXICO LLC  
TO REVOKE INJECTION AUTHORITY,  
LEA COUNTY, NEW MEXICO.

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August 26, 2024

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**COMM. CASE NO. 24123**

**APPLICATIONS OF GOODNIGHT  
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**DIV. CASE NOS. 23614-23617**

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**DIV. CASE NO. 23775**

**APPLICATIONS OF EMPIRE NEW MEXICO LLC  
TO REVOKE INJECTION AUTHORITY,  
LEA COUNTY, NEW MEXICO.**

**DIV. CASE NOS. 24018-24020**

**SELF-AFFIRMED STATEMENT OF JACK E. WHEELER**

I, Jack E. Wheeler state as follows:

1. I am over eighteen years of age and have personal knowledge of the matters stated herein. I am an Attorney working as Senior Vice President - Land and Legal for Empire Petroleum Corporation ("Empire"). I have previously testified before the New Mexico Oil Conservation Division ("Division") on matters of unitization, pooling and various other matters, and my credentials as a land and legal expert have been accepted by the Division and made a matter of record; however, I have never testified before the New Mexico Oil Conservation Commission ("Commission"). My credentials as an attorney and landman may be found in the

**EXHIBIT A**

attached resume. I graduated from the University of Houston with a Juris Doctorate Degree in 1976. I began my oil and gas career as an Attorney for Texaco and except for a few years working for the CIA, I have been employed in the oil and gas industry since law school graduation. I have been the Vice President of Land and Legal for Empire since September, 2023. I have over 45 years of oil and gas experience and have worked in all of the major oil and gas producing Basins and States including New Mexico during my career. I have been working exclusively on New Mexico land and legal matters for the past six (6) years. *See Attachment 1.*

2. My area of responsibility for Empire includes the area of Lea County in New Mexico.

3. I am familiar with the applications filed by Goodnight Midstream Permian, LLC (“Goodnight”).

4. I am familiar with the status of the lands that are subject to these applications.

5. I submit the following information in support of Empire's opposition to the referenced Goodnight saltwater disposal applications and Empire's Motions to Revoke the four (4) permitted saltwater disposal wells within the Eunice Monument South Unit boundaries.

6. In Cases 23614, 23615, 23616 and 23617, Applicant seeks an order authorizing injection of produced saltwater for purposes of disposal in the San Andres

Formation, underlying Sections 3, 4 and 10, Township 21 South, Range 36 East, NMPM, Lea County, New Mexico. Applicant seeks authority to drill and dispose into the following wells:

No. 26314: **Doc Gooden SWD #1**

Unit J, Section 3-21S-36E, Lea County, New Mexico.

No. 26315: **Hernandez SWD #1**

Unit P, Section 10-21S-36E, Lea County, New Mexico.

No. 26316: **Hodges SWD #1**

Lot 11, Section 4-21S-36E, Lea County, New Mexico.

No. 26317: **Seaver SWD #1**

Unit K, Section 10-21S-36E, Lea County, New Mexico.

7. Attached hereto as **Exhibit A-1** is a map showing the Eunice Monument South Unit boundaries.

8. Attached hereto as **Exhibit A-2** is a Map showing the locations of Goodnight Midstream Permian, LLC's currently proposed saltwater disposal wells, which include the four (4) proposed in the above-referenced applications and the Piazza SWD #0001 which is on appeal following the Denial of Goodnight's Permit Application (Order No. R-22689) by the New Mexico Oil Conservation Division (Case No. 24123).

9. Attached hereto as **Exhibit A-3** is a map showing Goodnight Midstream Permian, LLC's ("Goodnight") (1) proposed saltwater disposal wells and (2) their currently active or permitted saltwater disposal wells, all of which are located within the boundaries of the Eunice Monument South Unit. Wells indicated

in red are the proposed wells for which applications are currently pending before the Commission. Wells indicated in blue are wells that have been previously permitted and are the subject of Empire's Motions to Revoke. The Andre Dawson #001 (30-025-50634) is the subject of a pending application in Case No. 23775 to increase the amount permitted for injection.

10. Empire acquired the Eunice Monument South Unit from XTO Holdings, LLC ("XTO") on March 12, 2021, for a purchase price of Seventeen Million Eight Hundred Thousand (\$17,800,000) Dollars. Because of this substantial investment, it is imperative that Empire be allowed to conduct Primary, Secondary and Tertiary recovery of all hydrocarbons present in the Eunice Monument South Unit.

11. Attached hereto as **Exhibit A-4** is the Unit Agreement. The subject Field was discovered March 31, 1929, with the completion of the Lockhart "B-31" Well. Within five years, development had spread and it was proved to be an anticlinal structure. Within ten years, the Field had produced its first one million barrels of oil, and, in 1979 Gulf, Exxon and many others began studying the area for possible waterflood. At the time of issuance of the Order of the Commission on December 27, 1984, it was estimated that 64.2 million barrels of additional oil could be recovered from within this area. As of this date EMSU has produced 25.66 million barrels of oil since November 1, 1984. The approved Unit Area encompasses 14,189.84 acres with the State Lands comprising 58.32 percent of the land, which is 8,274.8 acres. The Fee Lands comprise 22.41 percent of the Unit and

3,180.28 acres, while the Federal Lands comprise 19.27 percent of the Unit and 2,734.76 acres. The lands subject to the Unit are evident in Exhibit A of **Exhibit A-4**.

12. Because of the ownership by the State of New Mexico and the Bureau of Land Management of almost seventy-eight (78%) percent of the Unit it is imperative that the Commission consider and protect the rights of the State of New Mexico and the Federal Lands managed by the BLM where the four (4) permitted saltwater disposal well are currently injecting volumes in violation exceeding the contractual area covered by the surface leases contained with the Unit Area. More information regarding these violations is contained in the Self-Affirmed Statement of William West.

13. Attached as **Exhibit A-5** is a copy of the Exxon Mobil (doing business as XTO) Sales Brochure that preceded XTO's sale of the Eunice Monument South Unit (and other lands) to Empire and a copy of the Purchase and Sale Agreement between XTO Holdings, LLC and Empire New Mexico LLC dated March 12, 2021 (the "Agreement"). The Brochure identifies the Residual Oil Zone ("ROZ") as being in the San Andres Formation and is approximately 350 feet thick with approximately 912,000,000 barrels of original oil in place. Knowing the upside potential and the value of the San Andres ROZ, to implement the CO2 Project XTO Holdings, LLC (Exxon) provided a CO2 Purchase Obligation in Section 12.8 of said Agreement which provides that:

(a) From and after the Closing until the Fiftieth (50th) Anniversary thereof, in the event Purchaser (or its Affiliates) elects to conduct carbon dioxide



flooding involving the Leases or Wells, in each such instance, Purchaser shall provide Seller with sixty (60) days advance notice of any such tertiary recovery project. In such event, Seller (or its Affiliates) shall have the right (but not the obligation) to offer, at then current market rates, such quantity of carbon dioxide to Purchaser as Seller may determine, and, subject to clause (b) below, Purchaser shall be required to purchase such carbon dioxide offered by Seller. If, following the Closing, Purchaser assigns its interest in a Lease or the Wells to a third party, the assignment must require that the assignee assume the assigning party's obligations with respect to this **Section 12.8.**

(b) If Purchaser receives a bona fide offer from a third party to purchase the same quantity of carbon dioxide as offered by Seller, but for a lower price, Purchaser shall notify Seller of the price and term of such transaction and Seller shall, within 30 days of receipt of the notice, notify Purchaser whether it elects to match such price and term. If Seller elects to match, Purchaser shall be obligated to purchase such quantity of carbon dioxide from Seller. If Seller elects not to match or fails to give notice of its intention within the 30-day period, Purchaser shall be free to purchase such quantity of carbon dioxide from the third party at a price not more than stated in the notice and for not longer than such term as stated in the notice (and for avoidance of doubt, the terms of this clause (b) shall again apply to any potential renewal following expiration of such term).

As further evidence in Exxon's belief in the value of the ROZ, as part of the negotiated Purchase Price Exxon provided for a retained "Overriding Royalty" which on Page 6 of the Appendix A is defined as "means an overriding

royalty interest for the benefit of Seller equal to four percent (4%) (not proportionately reduced) net revenue interest in the Leases and contractual interests in any individual field in which such Leases and contractual interests are located insofar and only insofar as such interests pertain to the time period after which Purchaser conducts any carbon dioxide tertiary recovery efforts commencing after the Effective Time in such field.”

14. Attached as **Exhibit A-6** is a copy of Order No. R-7765 establishing the Eunice Monument South Unit dated December 27, 1984. The applicant and original operator of the Eunice Monument South Unit was Gulf Oil Corporation which was rebranded as Chevron U.S.A. Inc. In 2004, XTO acquired Chevron's interest and was the successor Operator from 2004 through 2021. Empire acquired XTO's interests in the Units and other like wells in Lea County, New Mexico, and Empire became the successor Operator on March 12, 2021.

15. As reflected in **Order No. R-7765**, the **Unitized Formation** is defined as that interval underlying the Unit Area, the vertical limits of which extend from an upper limit described as 100 feet below mean sea level or at the top of the Grayburg Formation, whichever is higher, to the lower limit at the base of the San Andres Formation.

16. Likewise, the Unit Agreement for the EMSU defines the "Unitized Formation" as "that interval underlying the Unit Area, the vertical limits of which extend from an upper limit described as 100 feet below mean sea level or

at the top of the Grayburg formation, whichever is higher, to a lower limit at the base of the San Andres Formation; the geologic markers having been previously found to occur at 3,657 feet and 5,290 feet, respectively, in Continental Oil Company's #23 Meyer B-4 well (located at 660 feet FSL and 1,980 feet FEL of Section 4, T-21-S, R-36-E, Lea County, New Mexico) as recorded on the Welex Acoustic Velocity Log taken on October 30, 1962, said Log being measured from a Kelly Drive Bushing Elevation of 3,595 feet above sea level". **Exhibit A-4.**

17. **Thus, the Unitized Formation includes both the Grayburg and the San Andres Formations.**

18. The Unit Agreement defines "Unitized Substances" as "all oil, gas, gaseous substances, Sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons, other than outside substances, within and produced from the Unitized Formation".

19. Attached as **Exhibit A-7** is a nomenclature order, **Order No. R-7767.** **Order No. R-7767 establishes the Eunice Monument Gas Pool and Eunice Monument Oil Pool to include both the Grayburg and the San Andres Formations.**

20. Empire's Leasehold Interests in the Eunice Monument South Unit and all other Leases in Lea County, New Mexico extend from the surface to the top of the stratigraphic equivalent of the Wichita Albany Formation at approximately 6,745' except for 17 Leases. Of those 17 Leases, two cover the surface to the Base

of the Blinberry (below the San Andres Formation), one Lease covers the surface to the Base of the Grayburg San Andres Formation and 14 Leases cover the surface to the stratigraphic equivalent of the Base of the Wichita Albany Formation at approximately 7,750'. The original Base Leases are not depth limited as indicated in the attached sample Lease, attached as **Exhibit A-8**; however, various assignments have created the above depth limits. There are Nineteen (19) **Working** Interest Owners in the EMSU Unit with Empire owning 61% of the Unit, Apache Corporation owning 30% of the Unit, EEF Acquisition Company LLC owning 8% of the Unit and various other entities owning the remaining 1% of the Unit.

21. Goodnight Midstream Permian, LLC made previous SWD Applications during the COVID pandemic. XTO Holdings, LLC was in the process of selling the Eunice Monument South Unit so they did not expend the time or money necessary to protest the Applications. **In each of these Applications Goodnight failed to disclose to the NMOCD that they were making an application to inject SWD into Empire's Unitized Formation.** The four (4) Goodnight saltwater disposal wells currently injecting into our San Andres Formation have already disposed of over 49,352,029 Barrels of Water as of June 1, 2024. Empire has filed an application with the State of New Mexico Oil Conservation Commission to revoke these Permits in Case Nos. 24018, 2019, 24020 and 24025. Empire has also filed suit against **Goodnight in** Lea County, New Mexico against the Goodnight saltwater disposal wells currently injecting into our San Andres Formation for trespass to protect Empire and other interest owners' correlative rights in the Eunice Monument South Unit.

22. Empire acquired EMSU from XTO due to its significant CO2-EOR

potential in the San Andres ROZ and Grayburg Main Pay Zone intervals. After discovering that Goodnight was disposing of enormous volumes of water into the San Andres and had plans to expand additional disposal operations into the unitized interval, Empire's operational focus during 2023 and 2024 has been suspended while we seek support from the New Mexico Oil Conservation Commission to revoke existing SWD permits and to deny new applications. Disposal of water into the San Andres is violating the correlative rights of State, Federal, and Private Mineral Owners at EMSU, EMSU-B (Eunice Monument South B Unit), and AGU (Arrowhead Grayburg Unit), all of which are operated by Empire. The disposal water is pressuring up the reservoir to levels above original reservoir pressure (1527 psi @ 4000 feet) and based upon maximum allowed surface injection pressures, will likely reach 3000 psi before disposal rates decline significantly. This will require that Empire operate the CO2 at a higher pressure than necessary (Minimum Miscibility Pressure less than 2000 psi) and will have to inject the produced water into another zone to make room for the CO2 to avoid fracturing the formation. This will add significant capital to the cost of the project. Of major concern is that the re-pressurization of the San Andres is increasing water influx into the Grayburg through natural fractures, and this is pre-maturely watering out Grayburg producers. Reservoir modeling work indicates that water influx into the Grayburg could reach 50,000 BWPD over the next two years due to the increased pressure, even without the use of the five new application wells. Water disposal inside EMSU must be terminated so that correlative rights are protected and Empire can proceed with the Grayburg Waterflood and the San Andres/Grayburg

**CO2 Project.**

23. The attachments to this Statement were prepared by me and compiled from company business records.

24. I attest that the information provided herein is correct and complete to the best of my knowledge and belief.

25. The denial of these applications and approval of the Motions to Revoke is in the interests of conservation, the prevention of waste, and the protection of correlative rights.

I understand that this Self-Affirmed Statement will be used as written testimony in this Case. 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 identified next to my signature below.



---

Jack E. Wheeler, Sr.  
Senior Vice President Land and Legal  
Empire Petroleum Corporation  
August 8, 2024



## Attachment

**JACK E. WHEELER SR.**

**431 Spindle Ridge Drive  
Spring, Texas 77386**

**Cell Phone: 970) 388-9120**

**[jwheeler@empirepetrocorp.com](mailto:jwheeler@empirepetrocorp.com)**

**ATTORNEY, LANDMAN AND OIL AND GAS EXECUTIVE**

*Highly accomplished, meticulously organized, skilled advocate, strategic planner, negotiator and experienced dynamic corporate oil and gas specialist with more than forty years diversified experience in the oil and gas petroleum industry providing expert legal counsel and directing company policy on a broad range of issues. Demonstrated expertise in all land and legal areas domestically and internationally; offshore and onshore; Federal Lands and Indian Lands; unleased acreage and acreage held by production. Have extensive dealings with the Bureau of Land Management (BLM), Bureau of Indian Affairs (BIA) and individual Indian Tribes.*

*A proven leader, adept at strategic planning, evaluating and integrating multi-well drilling programs and opportunities with land and legal compliance and ability to be able to communicate complete, concise, logical, objective and persuasive ideas in both oral and written communications to Senior Management. Broad legal oil and gas background in governmental regulations related to regulatory pooling and unitization statutes and horizontal spacing and density statutes. Land and legal experience has ranged from preparing stand-up drilling and title opinions to legal representation in litigation to negotiating and closing over \$4 Billion of Acquisitions.*

**CAREER OVERVIEW**

**EMPIRE PETROLEUM CORPORATION, Houston, Texas** 2023 to Present  
Vice President – Land and Legal

Responsible for all Land and Legal matters related to Subsidiaries, Empire New Mexico LLC; Empire North Dakota LLC; Empire Texas LLC and Empire Louisiana LLC. Duties include overseeing work with New Mexico Oil Conservation Division, preparing title opinions on producing properties, preparation of all legal documents required for operations and similar land and legal matters.

**ATTORNEY AND OIL AND GAS CONSULTANT** 2014 to Present

Oil and Gas Attorney who provides Financial, Land, Legal, Operations, Production and Regulatory Services to Clients in the Oil and Gas Industry. Principal States of Operation have been in Colorado, Kansas, Louisiana, New Mexico and Texas. Services have included preparing Stand-up Title Opinions; preparing run sheets and Mineral Ownership Reports; preparing curative for title opinions; managing in-house land and legal departments; making regulatory filings with various State Agencies; testifying before State Oil and Gas Commissions; assisting in the preparation of 10-Q's and 10-K's; serving as an Expert Witness in Trials and Hearings, assisting in the preparation of Reserve Reports and researching surface, mineral and working interest ownership of properties.



**PATRIOT ENERGY, LLC, Windsor, Colorado**  
General Counsel Land Manager

2011 - 2013

Hired to manage assets of Company to resolve all existing land, legal and operational obligations of Oil and Gas and Real Estate Development Company. Helped to restructure debt, assisted with a joint venture agreement to have multiple horizontal wells drilled on Company minerals and helped raise third party capital to fund development of oil and gas properties and unfinished lots in sub-divisions.

Favorably settled defense of a Multi-Million Lawsuit with major Independent Oil and Gas Company. Prepared acquisition, joint operating, gas balancing and pooling agreements; complex surface damage agreements; division orders; drilling contracts; unit designations and related land and legal documents. Responsible for securing title opinions and curing title for properties and drill sites. Serve as company liaison with creditors, financial institutions, landowners, local, city, county, state and federal regulatory agencies. Work with local, State and Federal regulatory agencies to provide necessary information in order to comply with the regulatory requirements.

Served as General Counsel for Water Valley Land Company, LLC - Northern Colorado's premier resort-style lakefront/golf course development that encompassed over 1,200 acres with 2,000 homes. Infrastructure included irrigation systems, pump stations, boulevards and vast areas of open space with 400 acres of lakes plus businesses and shopping centers.

**TUSCANY OIL AND GAS, Oklahoma City, Oklahoma**  
Managing Partner and Owner

2002 - 2010

Responsible for multifaceted investment portfolio related to the acquisition, development, management and operation of several oil and gas related businesses including a workover drilling company, gas gathering system, oilfield tool rental company, oil and gas marketing company, producing oil and gas properties and pipeline construction company. Operated one hundred eighty-six (186) wells and five (5) producing water-flood properties. Operated sixty (60) mile pipeline from Stroud, Oklahoma to Cushing, Oklahoma. Had three (3) gathering systems collecting gas from over thirty (30) operators and one hundred and fifteen (115) wells. Responsible for the management of field and office personnel. Directly responsible for all legal affairs affecting diversified company. Responsible for the successful location and negotiation of financing including equity investments and asset-based debt financing with multiple banks and the USDA.

**COTTON VALLEY RESOURCES CORPORATION**

1994-2002

Dallas, Texas and Oklahoma City, Oklahoma

Chairman, Chief Executive Officer and Founder with initial investment of \$325,000.00 built a publicly traded oil and gas company valued at over \$125 Million. Acquired interest in over nine hundred (900) producing properties located primarily in Texas, Colorado, Oklahoma, Louisiana and New Mexico with additional wells in California, Mississippi, North Dakota, Pennsylvania, Utah, Wyoming and Canada. Also acquired royalty interest in twelve hundred eight (1,208) wells. All acquisitions were either by cash payment or stock purchase. With a staff of forty-four (44) employees managed operations on approximately thirty-five (35) percent of the producing properties.

Jack E. Wheeler Sr. Resume

2

Did amalgamation with existing American Stock Exchange Public Company and private company, East Wood Equity Ventures, Inc. Successfully navigated the Company through an IPO to form Aspen Group Resources listed on Toronto Exchange. Responsible for the successful location and negotiation of financing including equity investments and asset-based debt financing. Responsible for timely and accurate preparation and filing of SEC documents including 10 - Q's, 10 - K's and creation and implementation of a company wide Sarbanes-Oxley legislation and related rules compliance and general ethics policy. Recommended and developed company policy and position on all legal issues. Responsible for tax planning and compliance; development and maintenance of operating and capital budgets.

**EL PASO NATURAL GAS**, Houston, Texas 1990- 1994  
 Vice President - Assistant General Counsel and Assistant Secretary  
 Senior Vice-President - Business Development

Primary attorney responsible for the negotiation and documentation of over 300 acquisitions of producing properties exceeding \$2 Billion for subsidiary, Sonat Exploration. Responsible for handling all due diligence analysis of land and title and insuring the timely delivery of information required. Coordinated with the accounting due diligence team to make all purchase price adjustments based on discovered title defects during due diligence. Following closing of each acquisition coordinated with the respective regional land department to integrate all wells and leases into their respective operational systems. In addition managed day-to-day operation within legal department while managing five in-house lawyers in Houston location and seven in-house lawyers in field offices and supervised all outside counsel. Position required the ability to be successful at communicating complex business and legal issues to senior corporate management and personnel.

Implemented revised corporate contracts procedures by drafting a multi-volume set of approved Corporate Legal Forms for use by the entire Corporation related to the drafting, review, execution and control of all land and legal contracts for the oil and gas and pipeline operations. Initiated and established corporate environmental policies by drafting the Corporate Environmental Safety Manual which instituted an environmental employee development program with an alcohol and drug testing and substance abuse control program.

**THE ST. PAUL COMPANIES**, St. Paul, Minnesota 1988-1990  
 Vice President - Land and Legal for St. Paul Oil and Gas Investments

Corporate attorney responsible for negotiation, closing and documentation of annual budgeted \$750 Million in oil and gas and real estate investments. Handled all legal matters related to acquisitions, divestitures and operations. Responsible for securing title opinions and curing title for acquired properties and drill sites. Prepared acquisition, joint operating, gas balancing and pooling agreements; drilling contracts; division orders; unit designations and related land and legal documents. Designed and implemented a contract review and contract administration system for a business featuring more than five thousand seven hundred fifty (5,750) active, unique files and leases. Resolved five Take-or-Pay Contract disputes for ultimate settlements exceeding \$38 Million. Settled nineteen lawsuits having



total potential claims of \$44 Million for less than \$600,000.00. Managed a litigation portfolio of nearly one hundred (100) active lawsuits or claims in a variety of states and legal jurisdictions.

**KRITI EXPLORATION, INC.**

1984 – 1988

Stamford, Connecticut, New York City and Houston

Vice President Land &amp; Legal

Served as General Counsel for the U.S. and certain of the foreign subsidiaries of holding companies of Vardis Vardinogiannis who has interests in oil, publishing, real estate, shipping (Avin International S.A.) and television broadcasting. Motor Oil (Hellas) is an independent oil refinery in Corinth, Greece. Vegas Oil and Gas S.A. is an Exploration and Production Company based in Egypt with assets in the United States, Egypt and Yemen whose primary assets are the Alam El Shawish Concession, the East Ghazalat Concession and the NW Gemsa Concession in Egypt. It operates its activities in the United States as Kriti Holdings, Inc. with a primary focus on oil and gas production and the construction, sale and operation of certain real estate holdings including The Corinthian that is a 57-story residential and commercial development located at 330 East 38<sup>th</sup> Street (between Second Avenue and First Avenue) in New York City.

Responsible for handling all of the legal affairs of these various operating companies and managing the legal staff. Participated in the review, screening and evaluation of all drilling prospects and if approved handled the preparation and execution of all land and legal agreements. Provided counsel to ensure compliance with all laws and regulations. Supervised all litigation matters and selected and managed outside legal counsel. Coordinated all matters related to insurance issues including review of coverage and policies and securing and maintaining insurance certificates from all operators, suppliers and subcontractors. Negotiated and drafted various contracts and agreements including employment agreements, international concession agreements, leases, non-disclosure/confidentiality agreements, offshore operating agreements, purchase agreements, sales contracts, and subcontract agreements.

**TEXACO, INC., New Orleans and Houston**

1980 – 1984

Corporate Attorney

Provided land and legal counsel to management on oil and gas matters including acquisitions, divestitures, operational and environmental matters, litigation, document preparation and review, FERC/gas regulatory matters, domestic exploration and production. Developed field expertise in reviewing records and determining record title ownership of counties in various states. Prepared and/or approved farmout/farmin agreements, joint-operating agreements, stand-up title opinions, unitization agreements and other legal documents and agreements. Evaluated disputes and claims and either negotiated settlements or supervised and managed litigation efforts of outside legal counsel. Represented the Company before Federal and State Governmental Agencies.

**SOUTHERN AIR TRANSPORT**, Miami, Florida  
Executive Director of International Contracts

1977 – 1980

Responsible for handling all contract negotiations for civilian Air Charter Company owned by CIA whose aircraft operated on all seven continents and in over a hundred countries. Negotiated contracts with the UN, CARITAS, the International Committee of the Red Cross and numerous governments to provide humanitarian aid and food for the helpless saving countless thousands of lives in developing countries in Africa, Asia, Eastern Europe, Latin America and South America. Job responsibilities ranged from being involved in famine and disaster relief efforts in countries such as Angola, El Salvador, Kenya and Nicaragua to supporting Chevron's drilling activities operations in the central highlands of Papua New Guinea.

**Law Clerk, Honorable William M. Schultz**, Houston, Texas  
United States Bankruptcy Judge, Southern District of Texas

1976 - 1977

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**EDUCATION**

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**Juris Doctor - Bates College of Law, University of Houston**

**Master of Arts - University of Colorado**

**Bachelor of Arts - Texas A & M University**

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**CONTINUING EDUCATION**

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**Harvard Business School Executive Education - Advance Management Program**

**Harvard Business School Executive Education - Strategic Financial Analysis for Business Evaluation**

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**LICENSURE & AFFILIATIONS**

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**AMERICAN BAR ASSOCIATION**

**ASSOCIATION OF CORPORATE COUNSEL**

**STATE BAR OF LOUISIANA**

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**MILITARY**

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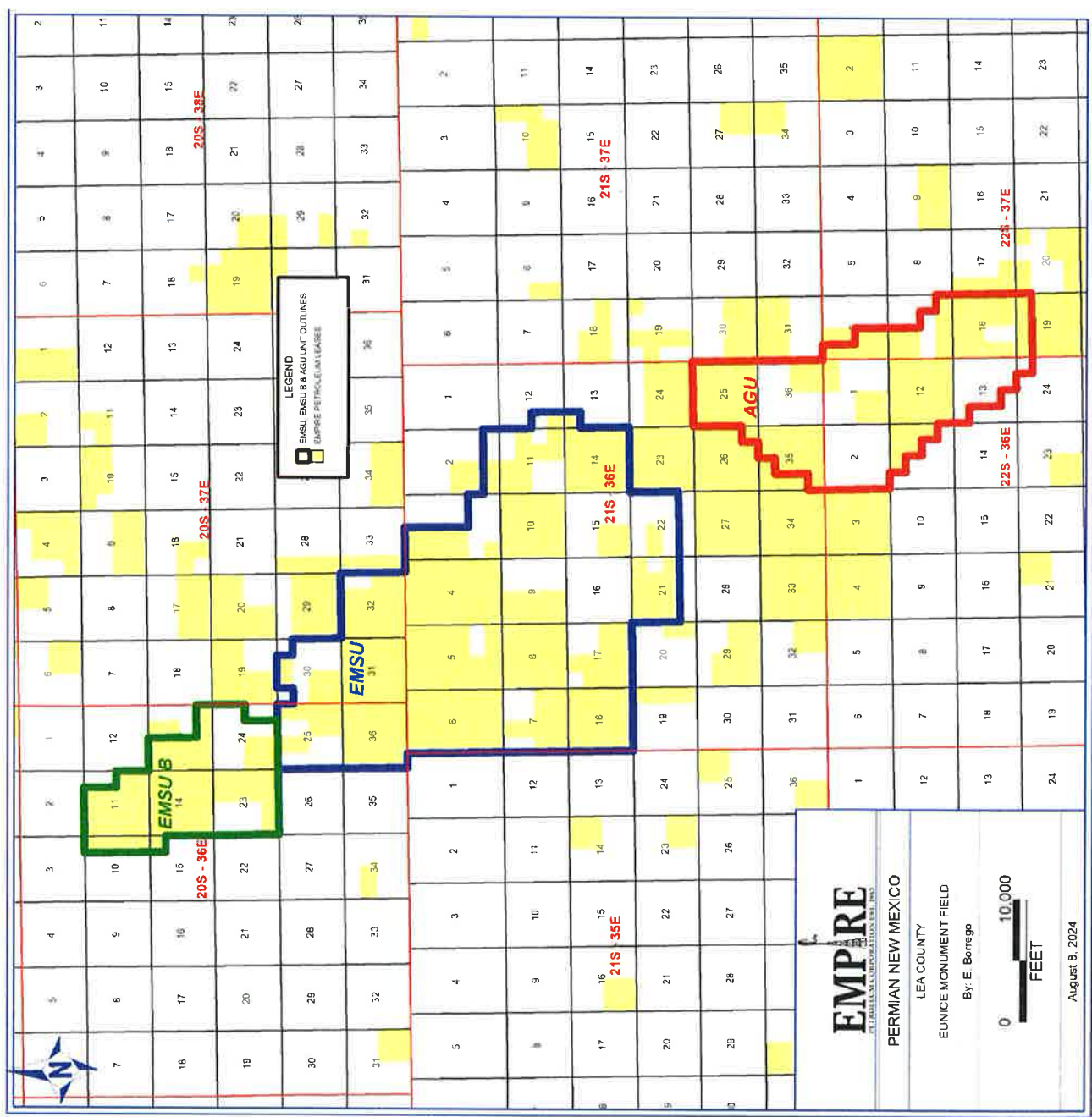
**UNITED STATES ARMY**

01/1970 - 12/1973

Distinguished Disabled Vietnam Combat Veteran having served with 5<sup>th</sup> Special Forces and received numerous commendations for bravery and valor including the Silver Star, RVN Gallantry Cross, Purple Heart, Bronze Star for Valor, Air Medal, Army Commendation Medal for Valor and Combat Infantryman's Badge. Rated by the Veterans Administration as One Hundred (100%) Percent disabled for wounds suffered in Vietnam.

# EMPIRE PETROLEUM CORPORATION UNIT MAP

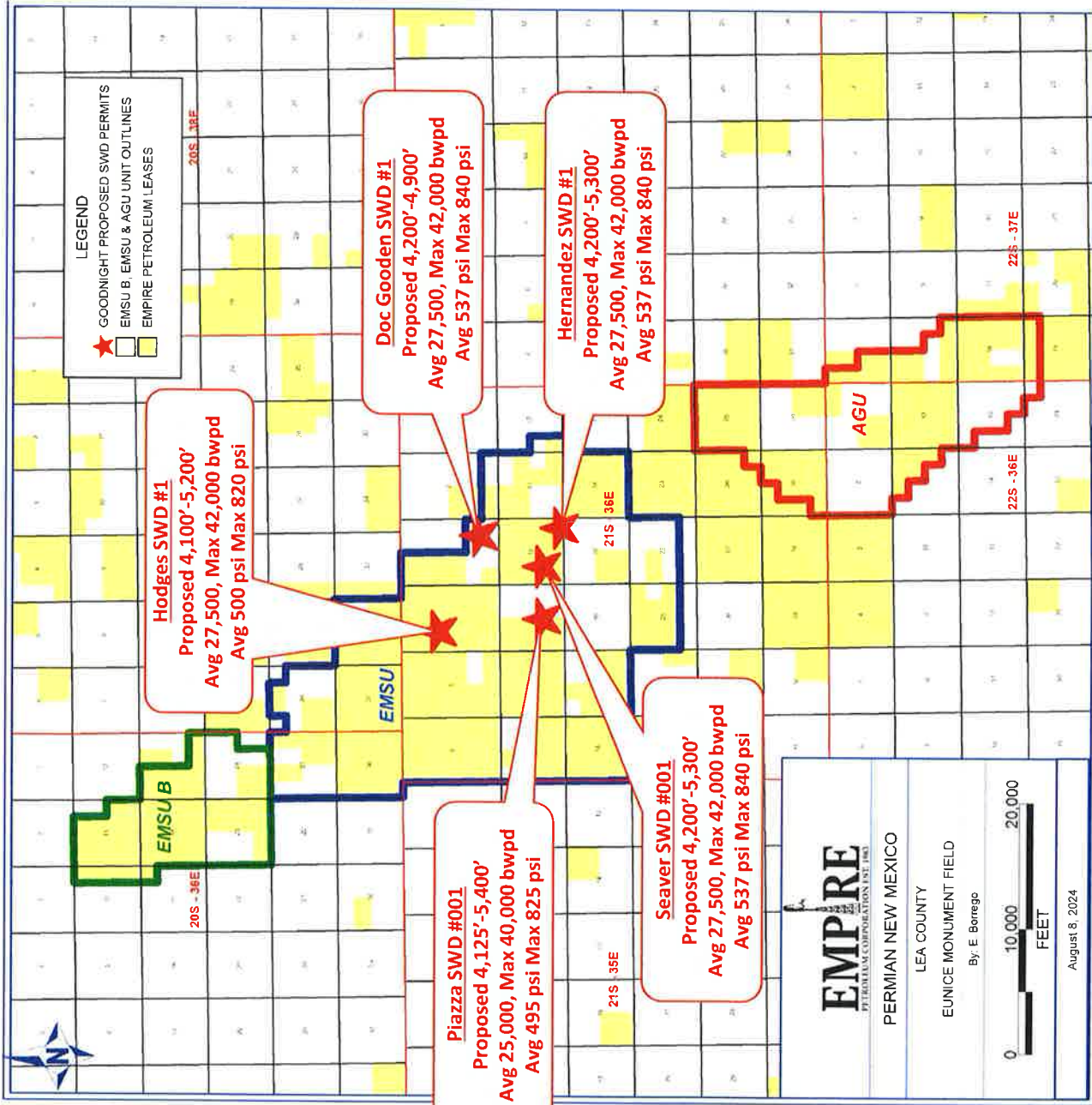
EXHIBIT A-1





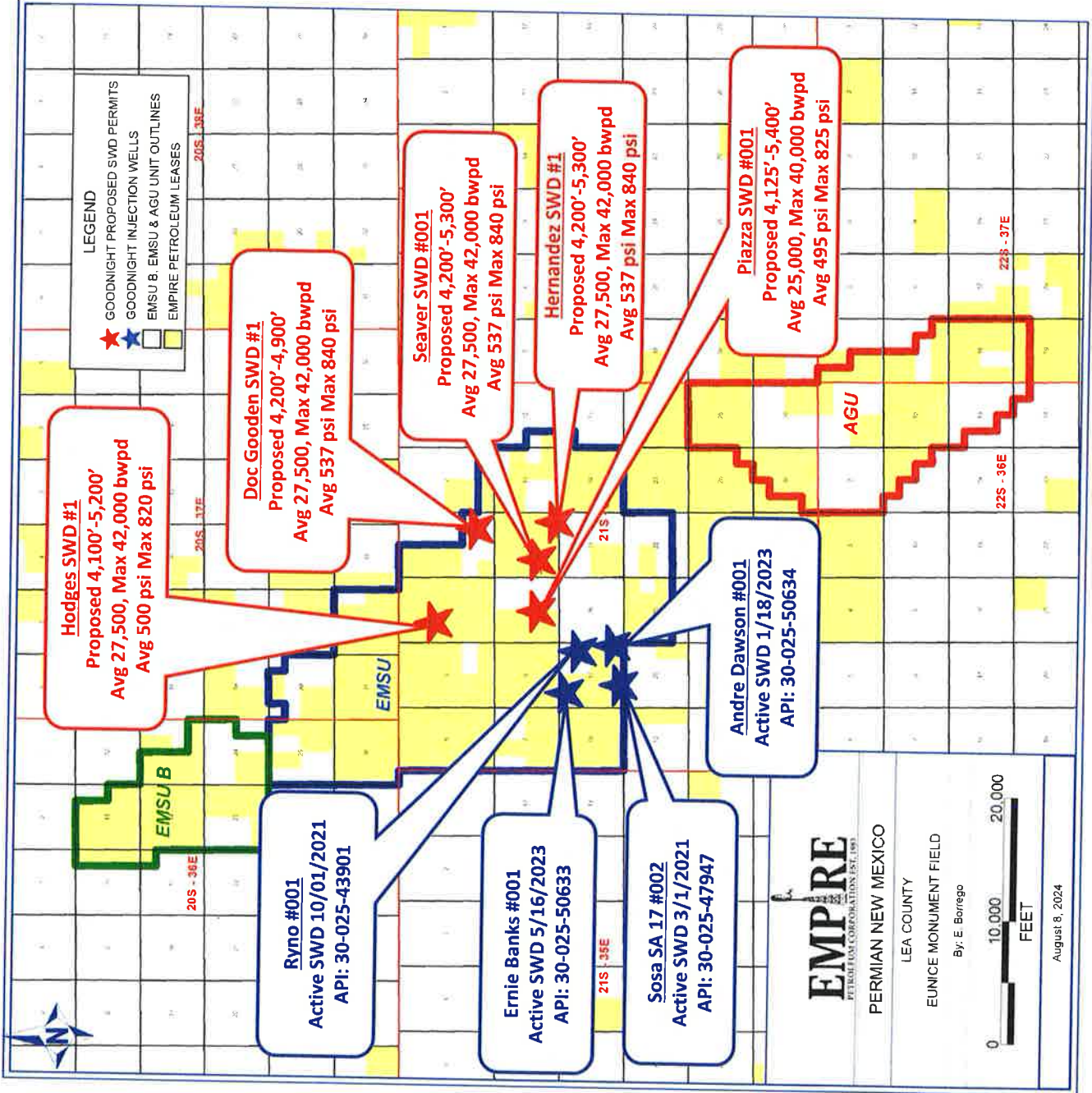
# GOODNIGHT MIDSTREAM PERMIAN, LLC OBJECTION TO SWD APPLICATIONS

## EXHIBIT A-2





# GOODNIGHT MIDSTREAM PERMIAN, LLC EXHIBIT A-3 ACTIVE INJECTION WELLS INTO SAN ANDRES



# **EXHIBIT A - 4**

*AM* BOOK 440 PAGE 607

43095

UNIT AGREEMENT  
AND EXHIBITS "A" & "B"  
  
EUNICE MONUMENT SOUTH  
STATUTORY SECONDARY RECOVERY  
FEDERAL - STATE UNIT  
LEA COUNTY, NEW MEXICO

EFFECTIVE DATE  
FEBRUARY 1, 1985

0141538  
3001445

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UNIT AGREEMENT  
EUNICE MONUMENT SOUTH UNIT  
LEA COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)  
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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE BOOK 440 PAGE 609  
EUNICE MONUMENT SOUTH UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 22nd day of June, 1984, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil and gas interests in the Unit Area subject to this Agreement; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1 of Chapter 176, Laws of 1961) (Chapter 19, Article 10, Section 45, New Mexico Statutes 1978 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1, Chapter 162, Laws of 1951) (Chapter 19, Article 10, Section 47, New Mexico Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the State of New Mexico (hereinafter referred to as the "Division") is authorized by an Act of the Legislature (Chapter 72, Laws of 1935 as amended) (Chapter 70, Article 2, Section 2 et seq., New Mexico Statutes 1978 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chapter 65, Article 3 and Article 14, N.M.S. 1953 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interest in the Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this Agreement under the terms, conditions, and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their respective interest in the below-defined Unit Area, and agree severally among themselves as follows:



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SECTION 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this Agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the Effective Date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the state in which the non-Federal land is located, are hereby accepted and made a part of this Agreement.

SECTION 2. UNIT-AREA AND DEFINITIONS. For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

(a) "Unit Area" is defined as those lands described in Exhibit "B" and depicted on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area, containing 14,190 acres, more or less, in Lea County, New Mexico.

(b) "Land Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(c) "Division" is defined as the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico.

(d) "Authorized Officer" or "A.O." is any employee of the Bureau of Land Management who has been delegated the required authority to act on behalf of the BLM.

(e) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.

(f) "Department" is defined as the Department of the Interior of the United States of America.

(g) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.

(h) "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extend from an upper limit described as 100 feet below mean sea level or at the top of the Grayburg formation, whichever is higher, to a lower limit at the base of the San Andres formation; the geologic markers having been previously found to occur at 3,657 feet and 5,290 feet, respectively, in Continental Oil Company's #23 Meyer B-4 well (located at 660 feet FSL and 1,980 feet FEL of Section 4, T-21-S, R-36-E, Lea County, New Mexico) as recorded on the Wellex Acoustic Velocity Log taken on October 30, 1962, said log being measured from a Kelly drive bushing elevation of 3,595 feet above sea level.

(i) "Unitized Substances" are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons, other than outside substances, within and produced from the Unitized Formation.

(j) "Tract" is each parcel of land described as such and given a Tract number in Exhibit "B".

(k) "Tract Participation" is defined as the percentage of participation shown on Exhibit "B" for allocating Unitized Substances to a Tract under this Agreement.

(l) "Unit Participation" is the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Tract Participation of such Tract.

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(m) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, operating agreement, or otherwise held, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and operations thereof hereunder. Provided that any royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of the working interest shall continue to be subject to such working interest burdens and obligations.

(n) "Working Interest Owner" is any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise. The owner of oil and gas rights that are free of lease or other instrument creating a Working Interest in another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

(o) "Royalty Interest" or "Royalty" is an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor or by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce unitized substances.

(p) "Royalty Owner" is the owner of a Royalty Interest.

(q) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, infra, and shall be styled "Unit Operating Agreement, Eunice Monument South Unit, Lea County, New Mexico".

(r) "Oil and Gas Rights" is the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

(s) "Outside Substances" is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.

(t) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform the duties of Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 7 hereof.

(u) "Unit Operator" is the party designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations.

(v) "Unit Operations" is any operation conducted pursuant to this Agreement and the Unit Operating Agreement.

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

(x) "Unit Expense" is all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

(y) "Effective Date" is the date determined in accordance with Section 24, or as redetermined in accordance with Section 39.

**SECTION 3. EXHIBITS.** The following exhibits are incorporated herein by reference: Exhibit "A" attached hereto is a map showing



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the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentages and kind of ownership of oil and gas interests in all land in the Unit Area, and Tract Participation of each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A.O., or any correction of any error other than mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working Interest owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each other such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit. Copies of such revision shall be filed with the Land Commissioner, and not less than four copies shall be filed with the A.O. In any such revision, there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof.

**SECTION 4. EXPANSION.** The above described Unit Area may, with the approval of the A.O. and Land Commissioner, when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement provided however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof. Pursuant to Subsection (b), the Working Interest Owners may agree upon an adjustment of investment by reason of the expansion. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if at least three Working Interest Owners having in the aggregate seventy-five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

(1) After obtaining preliminary concurrence by the A.O. and Land Commissioner, prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof; and

(2) Deliver copies of said notice to Land Commissioner, the A.O. at the Proper BLM Office, each Working Interest Owner and to the last known address of each lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Land Commissioner and A.O. the following: (a) evidence of mailing or delivering copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 14, and Section 34, infra; and (d) a copy of all objections received along with the Unit Operator's response thereto.

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The expansion shall, after due consideration of all pertinent information and approval by the Land Commissioner and the A.O., become effective as of the date prescribed in the notice thereof, preferably the first day of the month subsequent to the date of notice. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another.

**SECTION 5. UNITIZED LAND.** All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land subject to this Agreement". Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as defined in Section 2(h) of this Agreement.

**SECTION 6. UNIT OPERATOR.** GULF OIL CORPORATION is hereby designated the Unit Operator, and by signing this instrument as Unit Operator, agrees and consents to accept the duties and obligations of Unit Operator for the operation, development, and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, when such interests are owned by it and the term "Working Interest Owner" when used herein shall include or refer to the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

Unit Operator shall have a lien upon interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

**SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR.** Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Land Commissioner and the A.O. unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by Working Interest Owners having in the aggregate eighty percent (80%) or more of the Unit Participation then in effect exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the A.O.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, books and records, materials, appurtenances and any

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other assets used in connection with the Unit Operations to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected. Nothing herein shall be construed as authorizing the removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator or Unit Manager who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or the A.O., at their election, may declare this Agreement terminated.

In selecting a successor Unit Operator, the affirmative vote of three or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail; provided that if any one Working Interest Owner has a Unit Participation of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other Working Interest Owners having a total Unit Participation of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Land Commissioner and with the A.O. at the Proper BLM Office as required prior to approval of this Agreement.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto including surface rights which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.



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SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or enhanced recovery purposes in accordance with a plan of operation approved by the Working Interest Owners, the A.O., the Land Commissioner and the Division, including the right to drill and maintain injection wells on the Unitized Land and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purpose. Subject to like approval, the Plan of Operation may be revised as conditions may warrant.

The initial Plan of Operation shall be filed with the A.O., the Land Commissioner and the Division concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operations and all revisions thereof shall be as complete and adequate as the A.O., the Land Commissioner and the Division may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the initial plan by the A.O. and Commissioner, said plan, and all subsequently approved plans, shall constitute the operating obligations of the Unit Operator under this Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operations. After such operations are commenced, reasonable diligence shall be exercised by the Unit Operator in complying with the obligations of the approved Plan of Operation.

Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within eighteen (18) months after the effective date of this Agreement, or any extension thereof approved by the A.O., this Agreement shall terminate automatically as of the date of default.

SECTION 12. USE OF SURFACE AND USE OF WATER. The parties to the extent of their rights and interests, hereby grant to Unit Operator the right to use as much of the surface, including the water thereunder, of the Unitized Land as may reasonably be necessary for Unit Operations.

Unit Operator's free use of water or brine or both for Unit Operations, shall not include any water from any well, lake, pond or irrigation ditch of a surface owner, unless approval for such use is granted by the surface owner.

Unit Operator shall pay the surface owner for damages to growing crops, fences, improvements and structures on the Unitized Land that result from Unit Operations, and such payments shall be considered as items of unit expense to be borne by all the Working Interest Owners of lands subject hereto.

SECTION 13. TRACT PARTICIPATION. In Exhibit "B" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Unit Operations if all Tracts in the Unit Area qualify as provided herein. The Tract Participation of each Tract as shown in Exhibit "B" was determined in accordance with the following formula:

Tract Participation = 50% A/B + 40% C/D + 10% E/F

A = the Tract Cumulative Oil Production from the Unitized Formation as of September 30, 1982.

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- B = the Unitotal Cumulative Oil Production from the Unitized Formation as of September 30, 1982.
- C = the Remaining Primary Oil Reserves from the Unitized Formation for the Tract, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.
- D = the Remaining Primary Oil Reserves from the Unitized Formation for all Unit Tracts, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.
- E = the amount of oil produced from the Unitized Formation by the Tract from January 1, 1982, through September 30, 1982.
- F = the amount of oil produced from the Unitized Formation by all Unit Tracts from January 1, 1982, through September 30, 1982.

In the event less than all Tracts are qualified on the Effective Date hereof, the Tract Participation shall be calculated on the basis of all such qualified Tracts rather than all Tracts in the Unit Area.

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances shall be those Tracts more particularly described in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public road or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have become parties to this Agreement.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owners owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract have joined in a request for the inclusion of such Tract, and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the combined Unit Participation in all Tracts that meet the requirements of Section 14(a) above have voted in favor of the inclusion of such tract.

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owner owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract, and have executed and delivered, or obligated themselves to execute and deliver an indemnity agreement indemnifying and agreeing to hold harmless the other owners of committed Working Interests, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this Agreement, and which arise out of the inclusion of the Tract; and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the Unit Participation in all Tracts that meet the requirements of Section 14(a) and 14(b) have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. Upon the inclusion of such a Tract, the Tract Participations which would have been attributed to the nonsubscribing owners of Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in



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such Tract who have become parties to such agreements, and joined in the indemnity agreement, in proportion to their respective Working Interests in the Tract.

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Land Commissioner and the A.O., file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall be computed according to the participation formula set forth in Section 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "B" and upon approval thereof by the Land Commissioner and the A.O., shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Land Commissioner and A.O.

**SECTION 15.A. ALLOCATION OF UNITIZED SUBSTANCES.** All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for injection or unavoidable loss in accordance with a Plan of Operation approved by the A.O. and Land Commissioner) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B". The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for, to the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tracts, or in the proceeds thereof, had this Agreement not been entered into; and with the same legal force and effect.

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances.

If the Working Interest and/or the Royalty Interest in any Tract are divided with respect to separate parcels or portions of such Tract and owned now or hereafter in severalty by different persons, the Tract Participation shall in the absence of a recordable instrument executed by all owners in such Tract and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

**SECTION 15.B. WINDFALL PROFIT TAX.** In order to comply with the Windfall Profit Tax Act of 1980, as amended, and applicable regulations and to ensure that interest owners of each Tract retain the Windfall Profit Tax benefits accruing to each Tract prior to joining the Unit, for Windfall Profit Tax purposes only, crude oil shall be allocated to individual Tracts as follows:

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SECTION 15.C. IMPUTED NEWLY DISCOVERED CRUDE OIL. Each Tract contributing newly discovered crude oil to the Unit Area, that is, each Tract certified as a newly discovered property for Windfall Profit Tax purposes prior to joining the Unit (Newly Discovered Tract), shall be allocated imputed newly discovered crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Newly discovered Tracts; provided, however, that imputed newly discovered crude oil allocated to any Tract under this Subsection 15.C. shall not exceed, in any month, the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation. In the event a Newly Discovered Tract is so allocated a number of barrels of imputed newly discovered crude oil which is less than the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation; then such Newly Discovered Tract shall be allocated any remaining unallocated newly discovered crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Newly Discovered Tracts not previously so allocated the total number of barrels allocable out of unit production in accordance with their Tract Participations. This additional allocation process shall continue to be repeated, as outlined in the preceding sentence, until such time as:

(a) all Newly Discovered Tracts have been so allocated a number of barrels of imputed newly discovered crude oil equal to the total number of barrels of crude oil allocable out of unit production to such Tracts in accordance with their Tract Participations; or

(b) there is no imputed newly discovered crude oil remaining to be allocated,

whichever occurs first.

Any imputed newly discovered crude oil in excess of the amount of oil allocable to a Tract in accordance with this Subsection 15.C. shall be termed excess imputed newly discovered crude oil.

SECTION 15.D. IMPUTED STRIPPER CRUDE OIL. Each Tract contributing stripper crude oil to the Unit Area, that is, each Tract certified as a stripper property for Windfall Profit Tax purposes prior to joining the Unit (Stripper Tract), shall be allocated imputed stripper crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Stripper Tracts; provided, however, that imputed stripper crude oil allocated to any Tract under this Subsection 15.D. shall not exceed, in any month, the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation. In the event a Stripper Tract is so allocated a number of barrels of imputed stripper crude oil which is less than the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation, then such Stripper Tract shall be allocated any remaining unallocated imputed stripper crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Stripper Tracts not previously so allocated the total number of barrels allocable out of unit production in accordance with their Tract Participations. This additional allocation process shall continue to be repeated, as outlined in the preceding sentence, until such time as:

(a) all Stripper Tracts have been so allocated a number of barrels of imputed stripper crude oil equal to the total number of barrels of crude oil allocable out of unit production to such Tracts in accordance with their Tract Participations; or

(b) there is no imputed stripper crude oil remaining to be allocated,

whichever comes first.

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Any imputed stripper crude oil in excess of the amount of oil allocable to a Tract in accordance with this Subsection 15.D. shall be termed excess imputed stripper crude oil.

SECTION 15.E. EXCESS IMPUTED NEWLY DISCOVERED CRUDE OIL.

Each Tract shall be allocated any excess imputed newly discovered crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of barrels of crude oil allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts; provided, however, that excess imputed newly discovered crude oil allocated to each such Tract, when added to the total number of barrels of imputed newly discovered crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15.F. EXCESS IMPUTED STRIPPER CRUDE OIL.

Each Tract shall be allocated any excess imputed stripper crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of crude oil barrels allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts; provided, however, that excess imputed stripper crude oil allocated to each such Tract, when added to the total number of barrels of imputed stripper crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15.G. TAKING UNITIZED SUBSTANCES IN KIND.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area, provided the same are so constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation, then so long as such condition continues, Unit Operator, for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such production to itself or to others, provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all royalty, overriding royalty and production payments due thereon, and each such party shall hold each other Working Interest Owner harmless against all claims, demands and causes of



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action by owners of such royalty, overriding royalty and production payments.

If, after the Effective Date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the Effective Date hereof but which are subsequently committed hereto under the provisions of Section 14 (Tracts Qualified for Participation) and Section 32 (Nonjoinder and Subsequent Joinder); or if any Tract is excluded from this Agreement as provided for in Section 21 (Loss of Title), the schedule of participation as shown in Exhibit "B" shall be revised by the Unit Operator; and the revised Exhibit "B", upon approval by the Land Commissioner and the A.O., shall govern the allocation of production on and after the effective date thereof until a revised schedule is approved as hereinabove provided.

SECTION 16. OUTSIDE SUBSTANCES. If gas obtained from formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulating of production or increasing ultimate recovery which shall be in conformity with a Plan of Operation first approved by the Land Commissioner and the A.O., a like amount of gas with appropriate deduction for loss or depletion from any cause may be withdrawn from unit wells completed in the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved Plan of Operator or as otherwise may be consented to or prescribed by the Land Commissioner and the A.O. as conforming to good petroleum engineering practices and provided further that such right of withdrawal shall terminate on the termination date of this Agreement.

SECTION 17. ROYALTY SETTLEMENT. The State of New Mexico and United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under the leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision.

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the

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respective Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.

With the exception of Federal and State requirements to the contrary, Working Interest Owners may use or consume Unitized Substances for Unit Operations and no Royalty, overriding royalty, production or other payments shall be payable on account of Unitized Substances used, lost, or consumed in Unit Operations.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interests of all parties shall be adjusted accordingly.

**SECTION 18. RENTAL SETTLEMENT.** Rentals or minimum Royalties due on the leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum Royalty in lieu thereof, due under their leases. Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico. Rental or minimum Royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum Royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

**SECTION 19. CONSERVATION.** Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

**SECTION 20. DRAINAGE.** The Unit Operator shall take all reasonable and prudent measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

The Unit Operator, upon approval by the Working Interest Owners, the A.O. and the Land Commissioner, is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

**SECTION 21. LOSS OF TITLE.** In the event title to any Tract of unitized land shall fail and the true owner cannot be induced to join in this Agreement, such Tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any Royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to State or Federal lands or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the A.O. or Land Commissioner (as the case may be) to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners shall either:



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(a) require at the party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto.

Each Working Interest Owner shall indemnify, hold harmless, and defend all other Working Interest Owners against any and all claims by any party against the interest attributed to such Working Interest Owner on Exhibit "B".

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

SECTION 22. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each Tract subject to this Agreement, regardless of whether there is any development of any Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing or improved recovery operations performed hereunder shall be deemed to be performed upon and for the benefit of each Tract, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations within the Unit Area pursuant to direction or consent of the Land Commissioner and the A.O., or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract within the Unitized Area.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil and gas which by its terms might expire prior to the termination of this Agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.

(e) Any lease embracing lands of the State of New Mexico which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions

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commencing as of the Effective Date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease (including both segregated portions) shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this Agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or improved recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

(g) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; Provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

SECTION 23. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer.

SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective on the first day of the calendar month next following the approval of this Agreement by the A.O., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before June 1, 1986, it shall ipso facto expire on said date (hereinafter called "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy five percent (75%); and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement, in the office of the

BOOK 440 PAGE 624  
 County Clerk of Lea County, New Mexico, where a counterpart of this Agreement has become effective according to its terms and stating further the effective date.

The terms of this Agreement shall be for and during the time that Unitized Substances are produced from the unitized land and so long thereafter as drilling, reworking or other operations (including improved recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated as herein provided.

This Agreement may be terminated with the approval of the Land Commissioner and the A.O. by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable, or in the interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Lea County, New Mexico, within thirty (30) days of the effective date of termination.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never been entered into.

Notwithstanding any other provision in the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 25. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The A.O. is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Division to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Land Commissioner and as to any lands in the State of New Mexico or privately-owned lands subject to this Agreement or to the quantity and rate of production from such lands in the absence of specific written approval thereof by the Division.

Powers in this Section vested in the A.O. shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

SECTION 26. NONDISCRIMINATION. Unit Operator in connection with the performance of work under this Agreement relating to leases of the United States, agrees to comply with all of the provisions of Section 202(1) to (7) inclusive of Executive Order 11246, (30 F.R. 12319), which are hereby incorporated by reference in this Agreement.

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Land Commissioner, the Department, and the Division, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, the Department or the Division or any other legally constituted authority; provided, however, that any other interested party shall also



BOOK 440 PAGE 625

have the right at his or its own expense to be heard in any such proceeding.

SECTION 28. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified or registered mail, addressed to such party or parties at their last known address set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 29. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, each party hereto covenants that it will not resort to any action to partition the unitized land or the Unit Equipment.

SECTION 30. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. Therefore, for all purposes of this Agreement, any such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement, and it is agreed that any such equipment and personal property shall be and remain personal property of the Working Interest Owners for all purposes.

SECTION 31. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue improved recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 32. NONJOINER AND SUBSEQUENT JOINER. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to this Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Agreement.

Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this Agreement to the Land Commissioner and the A.O. for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time up to the Effective Date hereof on the same basis of Tract Participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after the Effective Date hereof the right of subsequent joinder as provided

BOOK 440 PAGE 626

in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners owning not less than sixty-five percent (65%) of the Unit Participation then in effect, and approved by the Land Commissioner and A.O. Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and, where State or Federal land is involved, such joinder must be approved by the Land Commissioner or A.O. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner and A.O. of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Land Commissioner or the A.O., is duly made sixty (60) days after such filing.

**SECTION 33. COUNTERPARTS.** This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing, specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the land within the described Unit Area. Furthermore, this Agreement shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

**SECTION 34. JOINDER IN DUAL CAPACITY.** Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such party; provided, that if the party is the owner of a Working Interest, he must also execute the Unit Operating Agreement.

**SECTION 35. TAXES.** Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

**SECTION 36. NO PARTNERSHIP.** The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligation as herein provided.

**SECTION 37. PRODUCTION AS OF THE EFFECTIVE DATE.** Unit Operator shall make a proper and timely gauge of all leases and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection, in such tanks as of 7:00 a.m. on the Effective Date hereof. All such oil which has then been produced in accordance with established allowables shall be and remain the property of the Working Interest Owner entitled thereto, the same as if the unit had not been formed; and the responsible Working Interest Owner shall promptly remove said oil



BOOK 440 PAGE 627

from the unitized land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after Effective Date hereof.

If, as of the Effective Date hereof, any Tract is over-produced with respect to the allowable of the wells on that Tract and the amount of over-production has been sold or otherwise disposed of, such over-production shall be regarded as a part of the Unitized Substances produced after the Effective Date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

SECTION 38. NO SHARING OF MARKET. This Agreement is not intended to provide and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale or marketing of Unitized Substances.

SECTION 39. STATUTORY UNITIZATION. If and when Working Interest Owners owning at least seventy-five percent (75%) Unit Participation and Royalty Owners owning at least seventy-five percent (75%) Royalty Interest have become parties to this Agreement or have approved this Agreement in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement, Unit Operator may make application to the Division for statutory unitization of the uncommitted interests pursuant to the Statutory Unitization Act (Chapter 65, Article 14, N.M.S. 1953 Annotated). If such application is made and statutory unitization is approved by the Division, then effective as of the date of the Division's order approving statutory unitization, this Agreement and/or the Unit Operating Agreement shall automatically be revised and/or amended in accordance with the following:

(1) Section 14 of this Agreement shall be revised by substituting for the entire said section the following:

"SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, all Tracts within the Unit Area shall be entitled to participation in the production of Unitized Substances."

(2) Section 24 of this Agreement shall be revised by substituting for the first three paragraphs of said section the following:

"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to conform to the Division's order; approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of Lea County, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least sixty-five percent (65%) as to all Tracts within the Unit Area.

"Unit Operator shall, within thirty (30) days after the Effective Date of this Agreement, file for record in the office of the County Clerk of Lea County, New Mexico, a certificate to the effect that this Agreement has become effective in accordance with its terms, therein identifying the Division's order approving statutory unitization and stating the Effective Date."

BOOK 440 PAGE 628

(3) This Agreement and/or the Unit Operating Agreement shall be amended in any and all respects necessary to conform to the Division's order approving statutory unitization.

Any and all amendments of this Agreement and/or the Unit Operating Agreement that are necessary to conform said agreements to the Division's order approving statutory unitization shall be deemed to be hereby approved in writing by the parties hereto without any necessity for further approval by said parties, except as follows:

(a) If any amendment of this Agreement has the effect of reducing any Royalty Owner's participation in the production of Unitized Substances, such Royalty Owner shall not be deemed to have hereby approved the amended agreement without the necessity of further approval in writing by said Royalty Owner; and

(b) If any amendment of this Agreement and/or the Unit Operating Agreement has the effect of reducing any Working Interest Owner's participation in the production of Unitized Substances or increasing such Working Interest Owner's share of Unit Expense, such Working Interest Owner shall not be deemed to have hereby approved the amended agreements without the necessity of further approval in writing by said Working Interest Owner.

Executed as of the day and year first above written.

GULF OIL CORPORATION *KBS*

By *L. A. Turner*  
Attorney-in-Fact

Date of Execution:

June 22, 1984

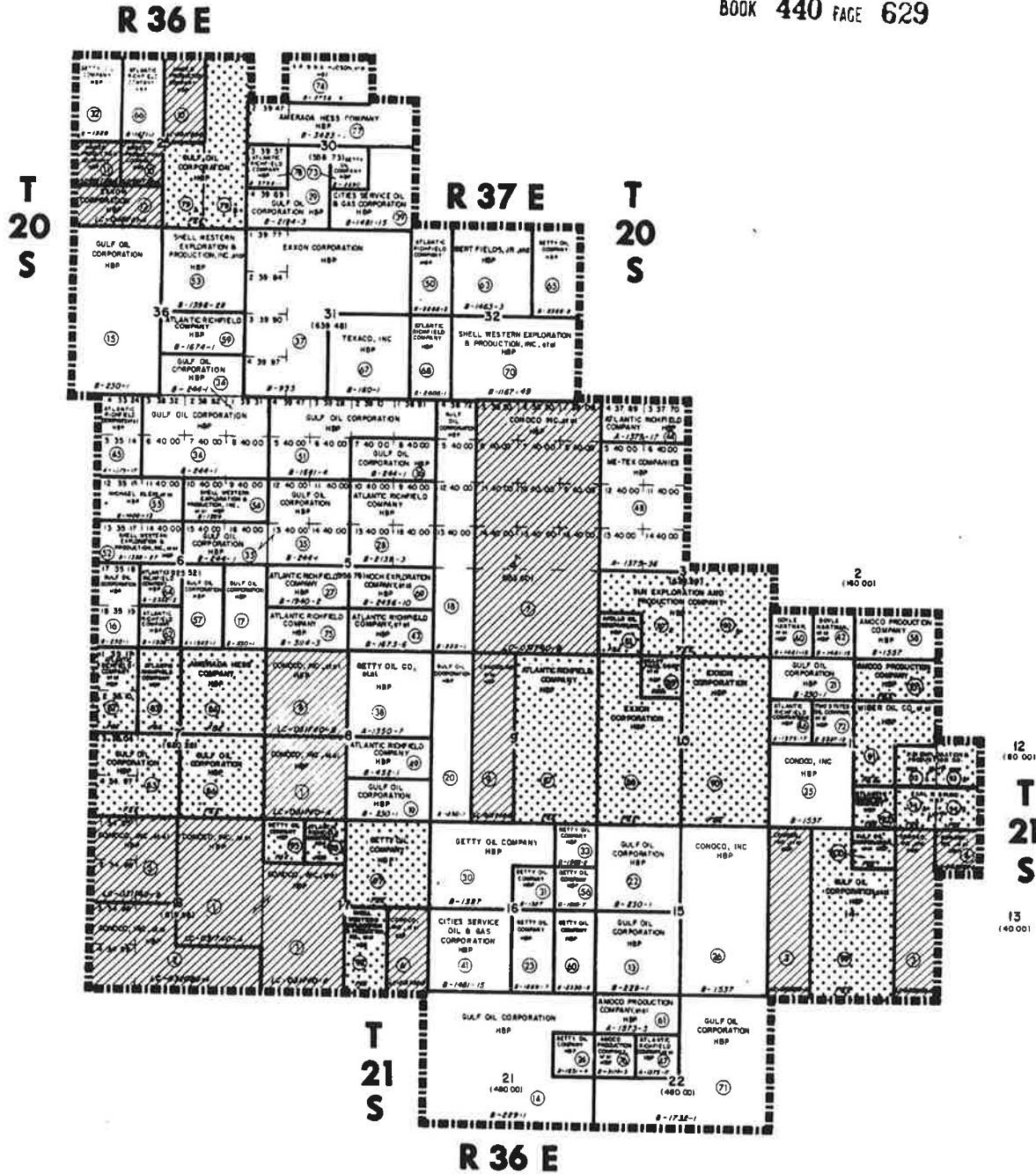
THE STATE OF TEXAS §  
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this 22nd day of June, 1984, by L. A. Turner Attorney-in-Fact, for/of Gulf Oil Corporation, a Pennsylvania corporation, on behalf of said corporation.




Notary Public  
Commission Expires:  
7-30-88  
STATE OF TEXAS

*Carolyn D. Larson*

BOOK 440 PAGE 629



**EXHIBIT "A"**  
**EUNICE MONUMENT SOUTH**  
**UNIT AREA**  
 LEA COUNTY, NEW MEXICO

	ACREAGE	PERCENTAGE
 FEDERAL LANDS	2,734.76	19.27 %
 STATE LANDS	8,274.80	58.32 %
 PATENTED LANDS	3,180.28	22.41 %
<b>TOTAL</b>	<b>14,189.84</b>	<b>100.00 %</b>



NOTE UNLESS OTHERWISE INDICATED, THE VARIOUS SECTIONS ON THIS PLAN CONTAIN 640.00 ACRES

**GULF OIL CORPORATION**  
MIDLAND, TEXAS

43094

*WMA* BOOK 440 PAGE 571

APPROVALS AND STATUTORY UNITIZATION ORDER

UNITED STATES DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

STATE OF NEW MEXICO  
COMMISSIONER OF PUBLIC LANDS  
OIL AND GAS DIVISION

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

BOOK 440 E 572



# United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Roswell District Office

P. O. Box 1397

Roswell, New Mexico 88201

IN REPLY  
REFER TO:  
NMO61P35-85U494

November 6, 1984

Gulf Oil Exploration and Production Company  
Attention: Ray Vaden  
P.O. Drawer 1150  
Midland, TX 79702

Gentlemen:

One approved copy of the Eunice Monument South Unit Agreement, Lea County, New Mexico, is enclosed. The agreement has been assigned No. NMO61P35-85U494. Approval of the agreement is subject to approval of statutory unitization by the NMOCD. The agreement will become effective the first day of the month following the date of approval by the BLM, NMOCD, and the Commission pursuant to section 24 of the unit agreement.

Sincerely yours,

District Manager

ACTING

Enclosure



BOOK 440 PAGE 573

# State of New Mexico



JIM BACA  
COMMISSIONER

## Commissioner of Public Lands

November 6, 1984

P.O. BOX 1148  
SANTA FE, NEW MEXICO 87504-1148  
Express Mail Delivery Uses  
310 Old Santa Fe Trail  
Santa Fe, New Mexico 87501

Gulf Oil Exploration and Production Co.  
P. O. Box 1150  
Midland, Texas 79702

Re: Eunice Monument South Unit  
Lea County, New Mexico

ATTENTION: Mr. Ray M. Vaden

Gentlemen:

The Commissioner of Public Lands has this date granted final approval to the Eunice Monument South Unit Area, Lea County, New Mexico, along with your Initial Plan of Operation. Our approval is subject to like approval by the Bureau of Land Management and the New Mexico Oil Conservation Division.

Our approval is given with the understanding that you will obtain the New Mexico Oil Conservation Division's approval of Statutory Unitization within a reasonable time.

Enclosed are Five (5) Certificates of Approval.

Your filing fee in the amount of \$720.00 has been received.

Very truly yours,

JIM BACA  
COMMISSIONER OF PUBLIC LANDS

BY: *Ray D. Graham*  
RAY D. GRAHAM, Director  
Oil and Gas Division  
AC 505/827-5744

JB/RDG/pm  
encls.  
cc:

OCD-Santa Fe, New Mexico  
BLM-Albuquerque, New Mexico  
BLM-Roswell, New Mexico



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

EUNICE MONUMENT SOUTH UNIT

LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated June 22, 1984, which has been executed, or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the State, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 6th day of November, 1984.



*Jim Baca*  
COMMISSIONER OF PUBLIC LANDS  
of the State of New Mexico



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

C E R T I F I C A T E

TONY ANAYA  
GOVERNOR

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-5800

TO WHOM IT MAY CONCERN:

I, R. L. STAMETS, Director of the Oil Conservation Division of the New Mexico Energy and Minerals Department, do hereby certify that the attached is a true and correct copy of the Nunc Pro Tunc order issued in Case No. 8397, Order No. R-7765 taken from the official records of this agency.

*R. L. Stamets*  
R. L. STAMETS, Director

December 28, 1984



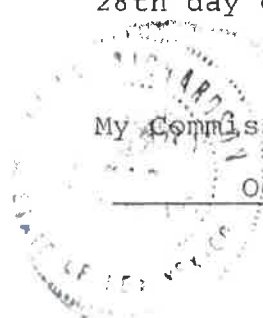
STATE OF NEW MEXICO )  
  ) ss.  
COUNTY OF SANTA FE )

The foregoing instrument was acknowledged before me this 28th day of December, 1984.

*Diana Richardson*  
Notary Public

My Commission Expires:

October 28, 1985



44362

EUNICE MONUMENT SOUTH UNIT

BOOK 442 PAGE 346

LEA COUNTY, NEW MEXICO

CERTIFICATE OF EFFECTIVENESS

Pursuant to the provisions of the Unit Agreement for the Eunice Monument South Unit, in Lea County, New Mexico, said agreement being dated June 22, 1984, and recorded in Book 440, at Page 607, of the Miscellaneous Records of said county, Gulf Oil Corporation, as Unit Operator, hereby certifies as follows:

- (a) Statutory unitization upon the terms and conditions of said Unit Agreement and the Unit Operating Agreement for said unit was approved and ordered by the Oil Conservation Commission of New Mexico on December 27, 1984, by Order No. R-7765 in Case No. 8397 heard on November 7 and 8, 1984.
(b) The said Unit Agreement became effective in accordance with its terms on February 1, 1985, which date is the Effective Date as defined in said agreement.
(c) The said Unit covers the following lands as to the unitized formation:

TOWNSHIP 20 SOUTH, RANGE 36 EAST, N.M.P.M.
Section 25: All
Section 36: All

TOWNSHIP 20 SOUTH, RANGE 37 EAST, N.M.P.M.
Section 30: S/2, S/2N/2, NE/4NW/4 and NW/4NE/4
Section 31: All
Section 32: All

TOWNSHIP 21 SOUTH, RANGE 36 EAST, N.M.P.M.
Section 2: S/2S/2
Section 3: Lots 3, 4, 5, 6, 11, 12, 13, and 14 and S/2
Section 4 through 11: All
Section 12: W/2SW/4
Section 13: NW/4NW/4
Section 14 through 18: All
Section 21: N/2 and N/2S/2
Section 22: N/2 and N/2S/2

IN WITNESS WHEREOF, this certificate is executed this 12th day of February, 1985.

STATE OF NEW MEXICO
COUNTY OF LEA
FILED
FEB 14 1985
STATE OF TEXAS
COUNTY OF MIDLAND

GULF OIL CORPORATION, as Unit Operator of the Eunice Monument South Unit

By: L.A. Turner
Attorney-in-Fact
L. A. TURNER

44362

The foregoing instrument was acknowledged before me this 12th day of February, 1985, by L.A. TURNER, Attorney in fact for GULF OIL CORPORATION, a Pennsylvania corporation, on behalf of the corporation.

My Commission Expires:
Notary Public seal for Midland County, Texas

Carolyn D. Larson
Notary Public in and for Midland County, Texas





## NEW MEXICO STATE LAND OFFICE

### CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

EUNICE MONUMENT SOUTH UNIT


LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated June 22, 1984, which has been executed, or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the State, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 6th day of November, 1984.

  
 \_\_\_\_\_  
 COMMISSIONER OF PUBLIC LANDS  
 of the State of New Mexico

BOOK 440 PAGE 78



STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

TONEY ANAYA  
GOVERNOR

CERTIFICATE

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-5800

TO WHOM IT MAY CONCERN:

I, R. L. STAMETS, Director of the Oil Conservation Division of the New Mexico Energy and Minerals Department, do hereby certify that the attached is a true and correct copy of Order No. R-7765 issued in Case No. 8397, Gulf Oil Corporation for Statutory Unitization, Eunice Monument South Unit, Lea County, New Mexico, taken from the official records of this agency.

  
R. L. STAMETS, Director

December 27, 1984



STATE OF NEW MEXICO )  
) ss.  
COUNTY OF SANTA FE )

The foregoing instrument was acknowledged before me this 27th day of December, 1984.

  
NOTARY PUBLIC

My Commission Expires:

October 28, 1985

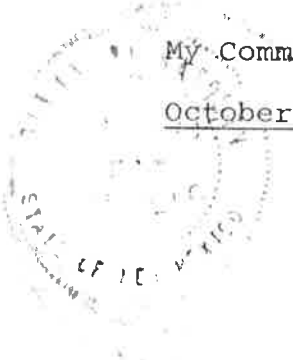






EXHIBIT A-5

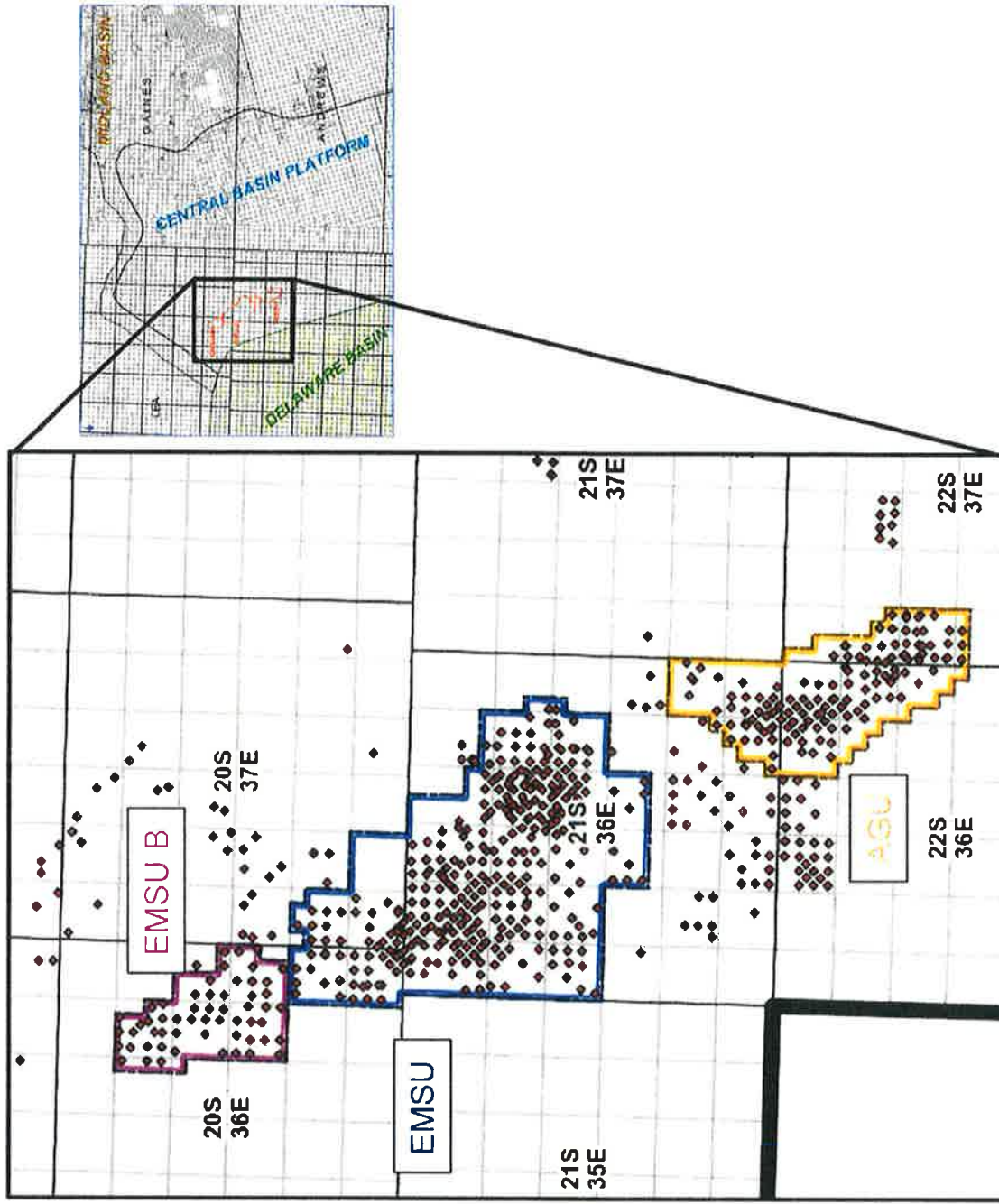
EMSU, EMSUB and AGU Upside  
Potential – Infill Drilling and ROZ

Energy lives here™

The slide features a blue background with a fine, white, wavy grid pattern. The text is centered and written in a clean, white, sans-serif font. The ExxonMobil logo is positioned in the bottom right corner of the slide.



## Location Map



### Description

- Three existing units; EMSU, EMSU B, AGU all have infill drill well and ROZ potential
- Significant “outside leases” are also part of Eunice asset but do not contain significant contiguous ROZ acreage

### Incentive

- EMSU, EMSU B and AGU have approximately 50 infill drill well locations
- EMSU, EMSU B and AGU hold a combined 23,400 ac of ROZ potential
- ROZ interval approximately 350’ thick with average oil saturation of ~25%

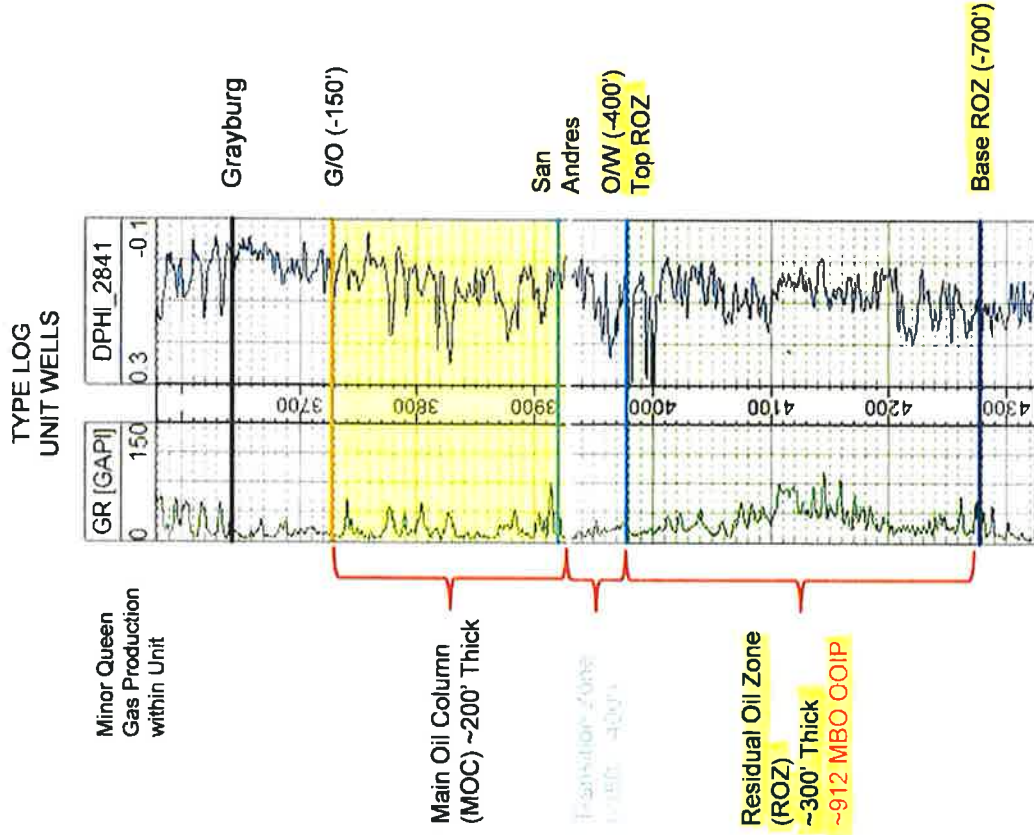
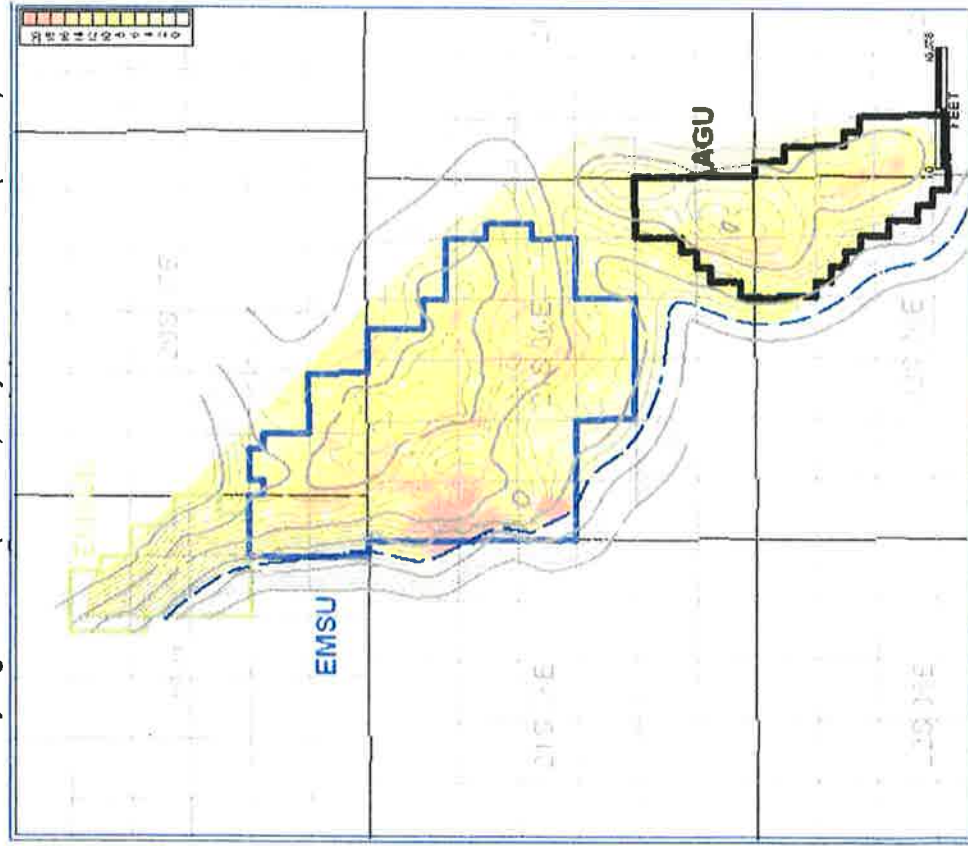
- XTO Operated Wells

ExxonMobil

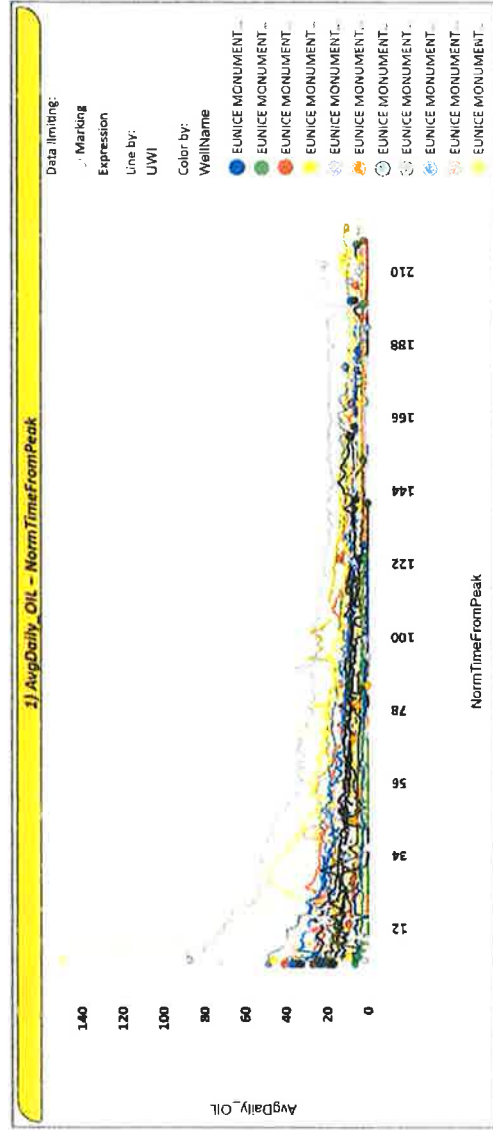
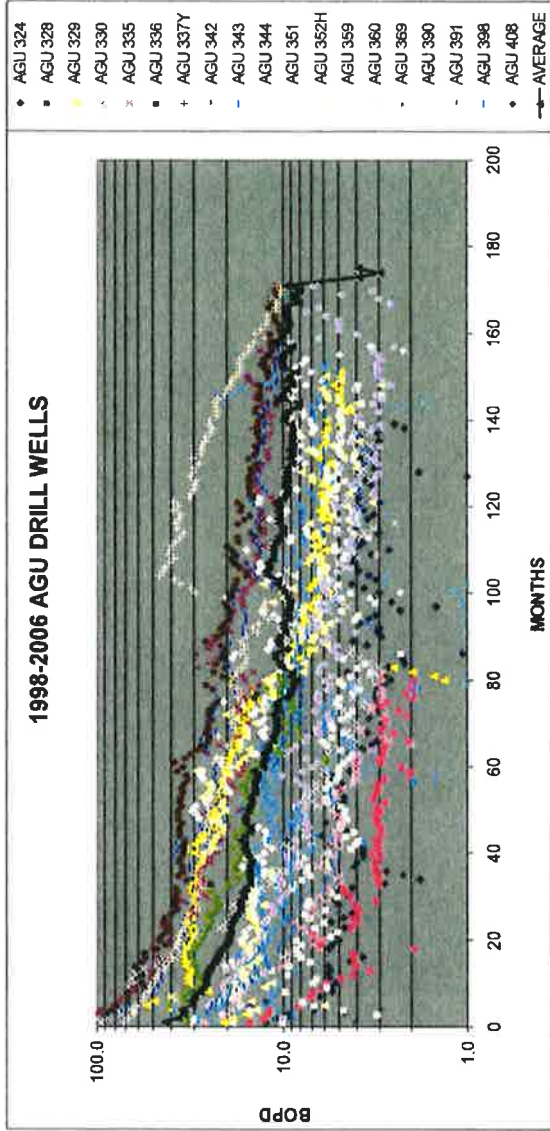


# EMSU, EMSU B and AGU Grayburg Structure, PhiH (MOC) and Type Log

Grayburg Structure (contours) & Hydrocarbon Phi-H (colored)



# EMSU, EMSU B and AGU Infill Type Curve Curve



- A series of infill wells were drilled between 1998-2006 at EMSU and AGU
- 61 in total (42 EMSU and 19 AGU)
  - 13 XTO wells drilled between 2005-2006
  - 48 Chevron wells drilled between 1998-2002
- EMSU AVG IP = 49 BOPD
- AGU AVG IP = 43 BOPD

# EMSU, EMSU B, AGU and Surrounding Area Potential

## Infill Potential

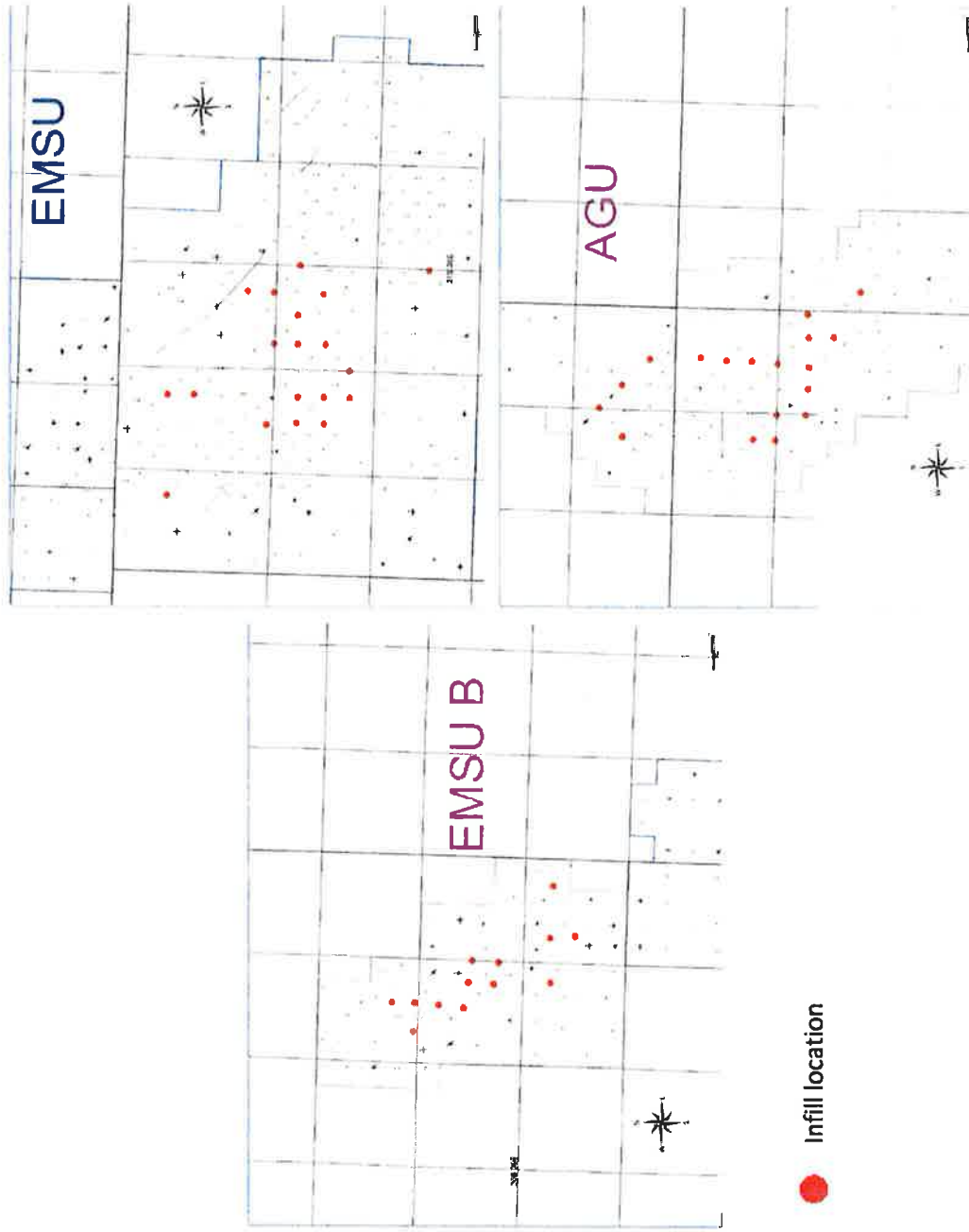
- Approximately 50 infill locations (20 acre spacing) have been identified within the three units

## Returning ~40 shut-in wells to production

- An additional ~250 BOPD if wells could be repaired more cost effectively
- Evaluate shut-in wells for OAP

## Optimization of water floods

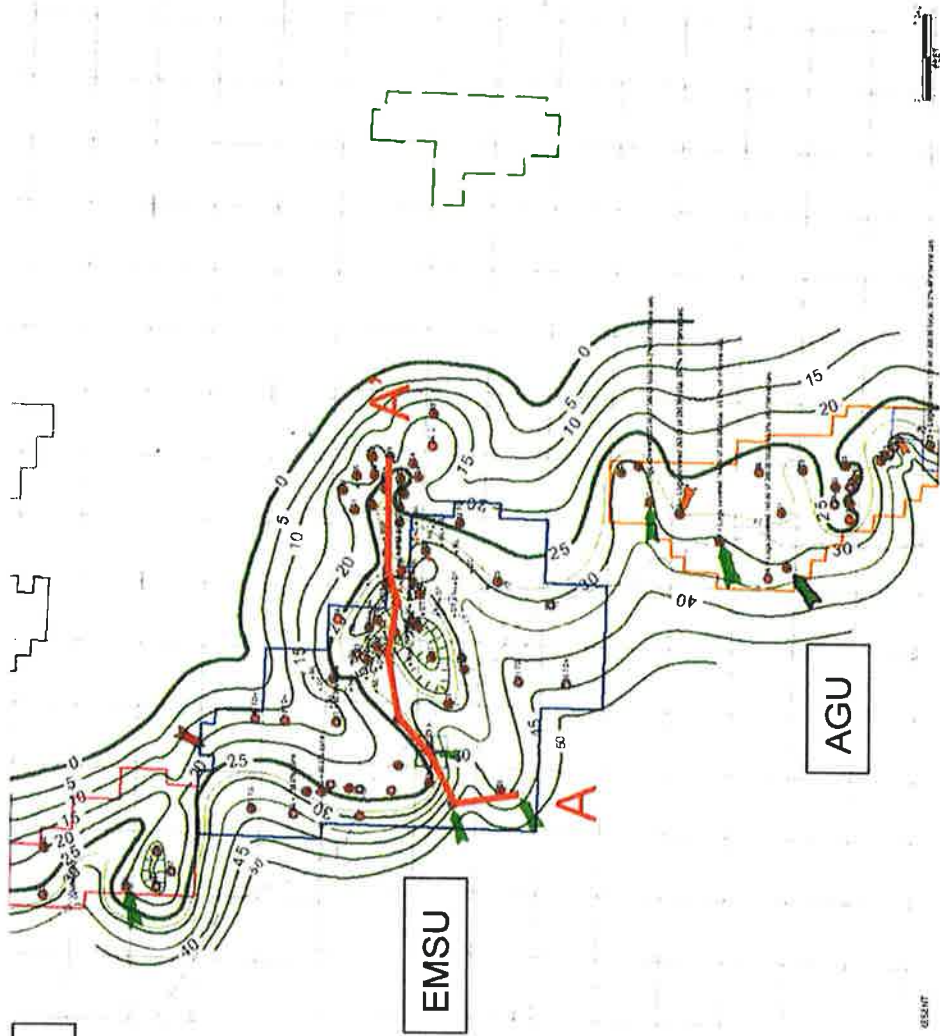
- Injector conformance work: Attempt squeezing zones in the upper Grayburg previously identified with injection profile logs as being "thief" zones



## Eunice Area ROZ PhiH Map

### Map Description

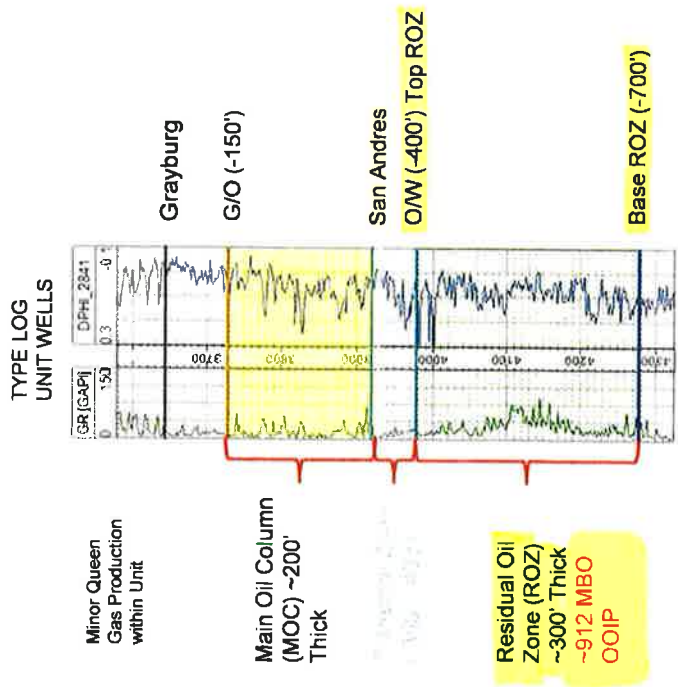
- Porosity Cutoff >6%
- Porosity curve calculated from RhoB using 2.84 g/cc matrix based on core matrix density
- Green arrows indicate core location
- Please note location of cross-section A - A' (see next slide)



EMSU B

EMSU

AGU



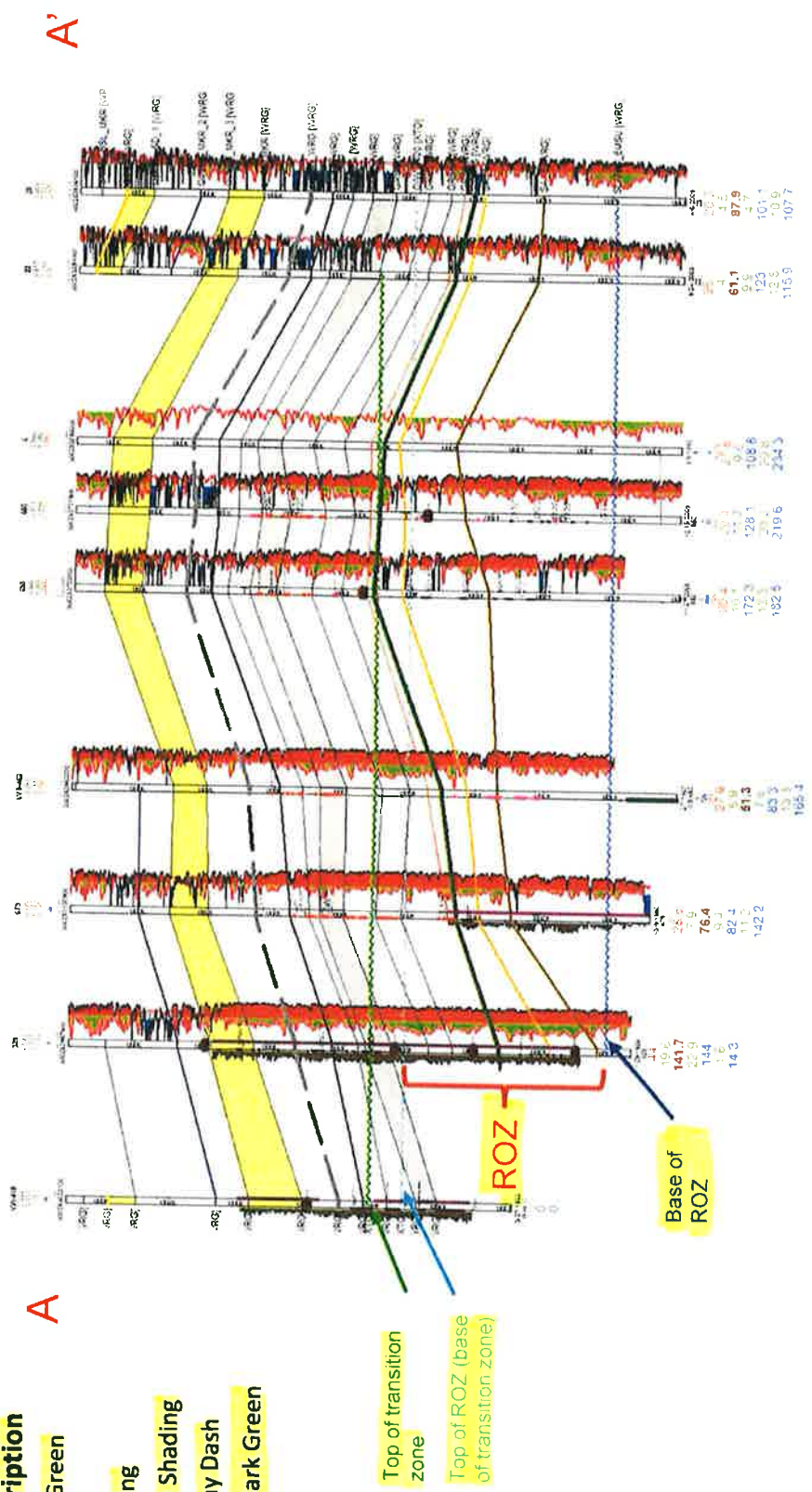
ExxonMobil



# Eunice Area ROZ Cross-section

## Cross-section Description

- Porosity Cutoff 6% Green Shading
- Sw < 50% Red Shading
- Core So > 5% Brown Shading
- Top of Grayburg Gray Dash
- Top of San Andres Dark Green



Top of transition zone  
 Top of ROZ (base of transition zone)

ROZ

Base of ROZ

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**PURCHASE AND SALE AGREEMENT**

**BETWEEN**

***XTO HOLDINGS, LLC***

**AND**

***EMPIRE NEW MEXICO LLC***

**DATED: MARCH 12, 2021**

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## PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (this "Agreement") is made as of March 12, 2021, by and between XTO Holdings LLC, a limited liability company, with an address of 22777 Springwoods Village Parkway, Spring, Texas 77389 ("Seller"), and Empire New Mexico LLC, a limited liability company, with an address of 2200 South Utica Place, Suite 150, Tulsa, Oklahoma 74114 ("Purchaser"). Seller and Purchaser are sometimes referred to in this Agreement collectively as the "Parties" and individually as a "Party."

### WITNESSETH

WHEREAS, Seller desires to sell to Purchaser the Assets (as defined below) and Purchaser is willing to purchase the Assets from Seller, upon the terms and conditions set forth in this Agreement:

NOW THEREFORE, in consideration of the mutual promises of the Parties contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

### ARTICLE I DEFINITIONS

Section 1.1 **Certain Defined Terms.** Capitalized terms used in this Agreement shall have the meanings given such terms as set forth in Appendix A attached to this Agreement.

### ARTICLE II PURCHASE AND SALE

Section 2.1 **Agreement to Purchase and Sell.** At the Closing, and subject to the terms and conditions of this Agreement, Purchaser agrees to purchase the Assets from Seller, and Seller agrees to sell, transfer and assign the Assets to Purchaser, effective as of the Effective Time.

Section 2.2 **The Assets.** The term "Assets" shall mean all of Seller's right, title and interest in and to the following, less and except for the Excluded Assets:

(a) the oil and gas leases described in Exhibit A-1 to the extent and only to the extent that such leases cover the lands and/or the depths described in Exhibit A-1, and all rights incident thereto and derived therefrom, including overriding royalty interests, net profits interests, and other revenue interests therein, to the extent and only to the extent relating to such lands and/or depths described in Exhibit A-1 (the "Leases").

(b) the wells described in Exhibit B and all other wells (including all disposal or injection wells) located on any of the Leases or on any other lease or lands with which any Lease has been unitized, whether such wells are producing, shut-in or abandoned (the "Wells");

(c) all rights and interests in, under or derived from all unitization or pooling agreements in effect with respect to any of the Leases or Wells and the units created thereby (the "Units");

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(d) all Rights-of-Way that are used primarily in connection with the ownership or operation of any of the Leases, Wells, Units or other Assets, including the Rights-of-Way set forth in Exhibit A-2;

(e) the offices and office leases described in Exhibit A-3 and all improvements, furniture and fixtures and related tangible personal property used primarily in connection with the offices covered thereby (the "Assigned Office");

(f) a royalty free oil and gas lease in the form attached as Exhibit C (the "Royalty Free Lease") for each of the mineral interests described in Exhibit A-4 (the "Mineral Interests");

(g) all equipment, machinery, fixtures and other personal and mixed property, operational and nonoperational, known or unknown, located on any of the Leases, Wells, Units or other Assets, that are primarily used or held for use in connection with the ownership, operation or development of the Leases, Well, Units or other Assets, including the inventory set forth on Schedule 3.2(f), and pipelines, gathering systems, well equipment, casing, tubing, pumps, motors, fixtures, machinery, compression equipment, flow lines, processing and separation facilities, structures, materials and other items primarily used in the ownership, operation or development of the Leases, Well, Units or other Assets;<sup>1</sup>

(h) to the extent that they may be assigned, all Permits that are primarily used in connection with the ownership or operation of the other Assets;

(i) to the extent they may be assigned, the Existing Contracts;

(j) all Hydrocarbons attributable to the Leases, Wells and/or Units to the extent such Hydrocarbons were produced from and after the Effective Time and all Imbalances relating to the Assets;

(k) the Transferred Vehicles; and

(l) to the extent transferable, the Records.

**Section 2.3 Excluded Assets.** The following are specifically excluded from the Assets and are reserved by Seller (collectively, "Excluded Assets"):

(a) all of Seller's corporate minute books, financial records and other business records that relate to Seller's business generally (including the ownership and operation of the Assets);

(b) all accounts, trade credits, accounts receivable, and all other proceeds, income or revenues attributable to the Assets with respect to any period of time prior to the Effective Time;



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(c) all claims and causes of action, manufacturer's and contractor's warranties and other rights of Seller arising under or with respect to any Existing Contracts that are attributable to periods of time prior to the Effective Time (including claims for adjustments or refunds), except to the extent any of the foregoing relates to any of the Assumed Obligations;

(d) all rights and interests of Seller (i) under any policy or agreement of insurance, (ii) under any bond or (iii) to any insurance or condemnation proceeds or awards arising;

(e) all Hydrocarbons produced and sold from the Assets with respect to all periods prior to the Effective Time;

(f) any claim, right or interest of Seller in or to any refunds or loss carry forwards, together with any interest due thereon or penalty rebate arising therefrom, with respect to (i) any and all taxes based on net income imposed on Seller or any of its Affiliates, (ii) any Property Taxes allocable to Seller pursuant to Section 13.1 or (iii) any Property Taxes attributable to the Excluded Assets;

(g) all personal computers and associated peripherals and all radio and telephone equipment except and unless located on any of the Wells or facilities to be assigned;

(h) all documents and instruments of Seller that may be protected by an attorney-client or other privilege;

(i) all data that cannot be disclosed to Purchaser as a result of confidentiality arrangements under agreements with third parties (provided that Seller has used its commercially reasonable efforts to cause such confidentiality restrictions to be waived);

(j) all audit rights arising under any of the Existing Contracts or otherwise with respect to any period prior to the Effective Time or to any of the Excluded Assets, except with respect to any Imbalances;

(k) all geophysical and other seismic and related technical data and information relating to the Assets;

(l) documents prepared or received by Seller or its Affiliates with respect to (i) lists of prospective purchasers for such transactions compiled by Seller or its Affiliates or their respective representatives, (ii) offers submitted by other prospective purchasers of the Assets, (iii) analyses by Seller or its Affiliates or any of their respective representatives of any offers submitted by any prospective purchaser, (iv) correspondence between or among Seller or its Affiliates or any of their respective representatives, on the one hand, and any prospective purchaser other than Purchaser, on the other hand, and (v) correspondence among Seller or its Affiliates or any of their respective representatives with respect to any other offers, the prospective purchasers, or the transactions contemplated by this Agreement;

(m) any offices, office leases, and any personal property located in or on such offices or office leases, except the Assigned Office;

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- (n) concurrent rights to use all Rights-of-Way but only to the extent Seller or any of its Affiliates currently uses such Rights-of-Way in connection with its use, ownership or operation of assets other than the Assets;
- (o) all vehicles, other than the Transferred Vehicles;
- (p) all fee mineral interests associated with the Assets (but subject to the grant of the Royalty Free Lease);
- (q) any royalty only wells and associated leases other than those listed on Schedule 3.2(q);
- (r) any master service agreements, blanket agreements or similar contracts; and
- (s) the Overriding Royalty.

**Section 2.4 Effective Time; Property Expenses and Revenues.** Subject to the terms hereof, ownership and possession of the Assets shall be transferred from Seller to Purchaser at the Closing but effective as of the Effective Time. Except to the extent accounted for in the adjustments to the Purchase Price made under Section 3.2 or Section 3.3 and without duplication of any such amounts: (a) Seller shall remain entitled to all of the rights of ownership (including the right to all production, proceeds of production and other proceeds) and shall remain responsible for all Property Expenses (in each case) attributable to the Assets for the period of time prior to the Effective Time; and (b) from and after the occurrence of Closing, Purchaser shall be entitled to all of the rights of ownership (including the right to all production, proceeds of production and other proceeds) and shall be responsible for all Property Expenses (in each case) attributable to the Assets for the period of time from and after the Effective Time.

### ARTICLE III PURCHASE PRICE

**Section 3.1 Purchase Price.** The purchase price for the Assets shall be SEVENTEEN MILLION EIGHT HUNDRED THOUSAND DOLLARS (\$17,800,000.00) (the "Purchase Price"). The Purchase Price shall be allocated among the Assets as set forth in Exhibit D (the "Allocated Values").

**Section 3.2 Upward Adjustments to the Purchase Price.** The Purchase Price shall be adjusted upward by the following (without duplication):

- (a) the amount of all Property Expenses and other costs paid by Seller that are attributable to the Assets on and after the Effective Time including royalties, rentals and similar charges and expenses and capital costs billed under applicable operating agreements and all prepaid expenses, but excluding costs paid by Seller to cure and/or Remediate, as applicable, any Title Defects, Environmental Defects or Casualty Losses, or to obtain any Required Consents or waiver of any Preferential Rights;
- (b) an amount equal to the value of all Hydrocarbons attributable to the Assets in pipelines or in tanks (including inventory) above the pipeline sales connection as of the Effective

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Time, such value to be based upon the contract price in effect as of the Effective Time (or if no such contract is in effect, the market value in the area as of the Effective Time), less applicable taxes and gravity adjustments;

(c) the amount of any Property Taxes prorated to Purchaser under Section 13.1, but paid or payable by Seller;

(d) an amount equal to the value of all Title Benefits in accordance with Section 4.7 below;

(e) an amount equal to the fair market value of the Transferred Vehicles required to be bought out by Seller plus any transfer costs for such Transferred Vehicles (provided that in the event any Transferred Vehicle leases can be transferred to Purchaser, then the adjustment shall only be the amount of transfer costs for such lease transfer, if any); and

(f) any other upward adjustment agreed upon by Seller and Purchaser.

**Section 3.3 Downward Adjustments to the Purchase Price.** The Purchase Price shall be adjusted downward by the following (without duplication):

(a) the amount of all proceeds and revenues received by Seller, if any, from and after the Effective Time up to the Closing that are attributable to the Assets from and after the Effective Time (net of any royalties and any production, severance, sales or other similar taxes not reimbursed to Seller by the purchaser of production);

(b) an amount equal to the Allocated Value of each of the Assets that have been excluded from the transactions contemplated by this Agreement pursuant to Section 4.4(a), Section 4.8(b), Section 4.8(c), Section 4.11(a) or Section 4.13(b)(ii);

(c) subject to Section 4.6, if Seller makes the election under Section 4.4(c) with respect to any Title Defect, the Title Defect Amount with respect to such Title Defect;

(d) subject to Section 4.12, if Seller makes the election under Section 4.11(c) with respect to any Environmental Defect, the Remediation Amount with respect to such Environmental Defect;

(e) if Seller makes the election under Section 4.13(b)(iii) with respect to any Casualty Loss, the reduction in value of any Asset that is attributable to such Casualty Loss;

(f) an amount equal to the net amount of suspended funds Seller elects to transfer to Purchaser in accordance with Section 12.2;

(g) the amount of all Property Taxes prorated to Seller in accordance with Section 13.1, but paid or payable by Purchaser; and

(h) any other downward adjustment agreed upon by Seller and Purchaser.

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**Section 3.4 Payment of the Purchase Price.** Purchaser shall pay the Purchase Price, as adjusted pursuant to Sections 3.2 and 3.3 above (the "Adjusted Purchase Price"), as follows:

(a) on the date this Agreement is executed by the Parties, Purchaser shall pay to Seller, by wire transfer of immediately available funds to an account designated by Seller, the Deposit, which Deposit shall not bear interest. If the Closing occurs, the Deposit (without interest) shall be credited towards the Purchase Price. If Closing does not occur, the Deposit will be subject to the provisions of Article XV.

(b) Purchaser shall pay to Seller at Closing, the Adjusted Purchase Price as determined in accordance with Section 10.2, and subject to final adjustment pursuant to Section 12.1, less the Deposit. All such payments shall be by bank wire transfer of immediately available funds to an account designated by Seller in the Preliminary Settlement Statement.

#### **ARTICLE IV TITLE AND ENVIRONMENTAL MATTERS AND CASUALTY LOSSES**

**Section 4.1 Title Examination.** Subject to the indemnity provisions of Section 7.4 and subject to obtaining any consents or waivers from third parties that are required pursuant to the terms of the Leases, Right-of-Way and/or Existing Contracts (including any restrictions therein related to access during hunting seasons), including any third party operators of the Assets, as soon as is reasonably practicable after the execution of this Agreement, during Seller's normal business hours and without unreasonable disruption of Seller's normal and usual operations, Seller shall make available to Purchaser at Seller's offices all title data in Seller's or its Affiliates' possession relating to the Assets, including title opinions, abstracts of title, title status reports, division order files, and curative matters, the Existing Contracts, and records relating to the payment of rentals, royalties, shut-in gas royalties, and other payments due under any Lease or Existing Contract provided, however, that those items referenced above in this Section 4.1 that are subject to a valid legal privilege or to unwaived disclosure restrictions shall be excluded. Purchaser shall be permitted, at its expense, to make copies of any of such title data. Purchaser shall be entitled to perform or cause to be performed, at Purchaser's expense, such additional title examination as Purchaser deems necessary or appropriate.

#### **Section 4.2 Seller's Title.**

(a) General Disclaimer of Title Warranties and Representations. Without limiting Purchaser's remedies for Title Defects set forth in this Article IV, Seller makes no warranty or representation, express, implied, statutory or otherwise, with respect to title to any of the Assets and, Purchaser acknowledges and agrees that Purchaser's sole remedy for any defect of title, including any Title Defect, with respect to any of the Assets (i) before Closing, shall be as set forth in Section 4.4 and (ii) after Closing, shall be pursuant to the special warranty of title to the Wells contained in Section 4.2(b), subject to the provisions of Section 4.2(c), and Purchaser waives all other remedies.

(b) Special Warranty of Title. Upon Closing, subject to Section 4.2(c), Seller hereby warrants and agrees to defend Defensible Title to the Wells by, through or under Seller but



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not otherwise, subject, however, to the Permitted Encumbrances. Such special warranty of title to the Wells shall be subject to the further limitations and provisions of Section 4.2(c).

(c) Recovery on Special Warranty.

(i) Purchaser's Assertion of Title Warranty Breaches. Purchaser shall furnish Seller a Title Defect Notice meeting the requirements of Section 4.3 setting forth any matters which Purchaser intends to assert as a breach of the special warranty of title to the Wells contained in Section 4.2(b). Seller shall have a reasonable opportunity, but not the obligation, to cure any Title Defect asserted by Purchaser pursuant to this Section 4.2(c). Purchaser agrees to reasonably cooperate with any attempt by Seller to cure any such breach of the special warranty of title.

(ii) Limitations on Special Warranty. For purposes of the special warranty of title to the Wells contained in Section 4.2(b), the value of the Assets set forth in Exhibit D shall be deemed to be the Allocated Value thereof, as adjusted pursuant to this Agreement. Recovery on the special warranty of title to the Wells contained in Section 4.2(b) shall be limited to an amount (without any interest accruing thereon) equal to the reduction in the Purchase Price to which Purchaser would have been entitled had Purchaser asserted the Title Defect giving rise to such breach of the special warranty of title, as a Title Defect prior to Closing pursuant to Section 4.3, in each case taking into account the Individual Title Defect Threshold and the Aggregate Title Defect Deductible.

(iii) Purchaser shall not be entitled to protection under Seller's special warranty of title to the Wells in Section 4.2(b), with respect to (A) any matter of which Purchaser or any of its Affiliates had knowledge prior to the Defect Notice Date, or (B) any matter reported to Seller after the one year anniversary of the Closing Date.

**Section 4.3 Notice of Title Defects.** Purchaser shall notify Seller in writing of any Title Defect (each a "Title Defect Notice") on or before April 6, 2021 (the "Defect Notice Date"). For all purposes of this Agreement and notwithstanding anything herein to the contrary (except for the special warranty of title to the Wells contained in Section 4.2(b)), Purchaser shall be deemed to have waived, and Seller shall have no liability for, any Title Defect that Purchaser fails to assert as a Title Defect by a Title Defect Notice received by Seller on or before the Defect Notice Date. To be effective, each Title Defect Notice shall include (a) a detailed description of the alleged Title Defect, (b) the Well affected by such Title Defect (each a "Title Defect Property"), (c) the Allocated Value of such Title Defect Property, (d) supporting documents reasonably necessary for Seller to verify the existence of the alleged Title Defect, and (e) the amount by which Purchaser reasonably believes the Allocated Value of such Title Defect Property is reduced by the alleged Title Defect. Seller shall have the right, but not the obligation, to elect to attempt to cure any Title Defect set forth in a Title Defect Notice by written notice to Purchaser prior to Closing and, if Seller so elects, then Seller shall have sixty (60) days following Closing in which to cure, at Seller's cost, the Title Defect. No adjustment to the Purchase Price will be made at Closing for any Title Defect that Seller elects to attempt to cure pursuant to this Section 4.3 and the affected Well shall be assigned to Purchaser. If any such uncured Title Defect remains uncured at the end of such 60

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day period, then (except as provided in Section 4.4 (a)) an adjustment to the Purchase Price in an amount equal to the applicable Title Defect Amount will be made as part of the Final Settlement Statement. To give Seller an opportunity to commence reviewing and curing Title Defects, Purchaser shall use its reasonable efforts to give Seller weekly written notice of all Title Defects discovered by Purchaser (together with any Title Benefits discovered by Purchaser).

**Section 4.4 Remedies for Title Defects.** Subject to Seller's continuing right to dispute the existence of a Title Defect and/or the Title Defect Amount asserted with respect thereto and subject to the Individual Title Defect Threshold and the Aggregate Title Defect Deductible, with respect to any Title Defect that (i) Seller does not elect to attempt to cure or (ii) Seller elects to attempt to cure and Seller fails to cure such Title Defect within sixty (60) days after Closing:

(a) if such Title Defect is not of a nature that would prevent Purchaser from receiving the full Net Revenue Interest share of proceeds of production for a particular Well as such interest is set forth on Exhibit B, Seller shall have the right, but not the obligation, to elect to indemnify Purchaser against all Losses resulting from such Title Defect pursuant to an indemnity agreement in form mutually agreeable to the Parties, in which event the Purchase Price shall not be reduced and the affected Title Defect Property shall be transferred to (or after Closing, retained by) Purchaser notwithstanding and subject to such Title Defect;

(b) at or prior to Closing, Seller shall have the right, but not the obligation, to elect to exclude the affected Title Defect Property from the transactions contemplated hereby, in which event such Title Defect Property and all Assets directly relating thereto (but only to the extent relating thereto) shall be excluded from the transactions contemplated hereby and the Purchase Price shall be reduced by the Allocated Value of such Title Defect Property and related Assets; or

(c) if both Section 4.4(a) and Section 4.4(b) above are not applicable, the affected Title Defect Property shall be transferred to (or if after Closing, retained by) Purchaser notwithstanding and subject to the Title Defect and the Purchase Price shall be reduced by the Title Defect Amount of such Title Defect Property as determined in accordance with Section 4.5 below.

Except for Purchaser's (i) rights under the special warranty of title to the Wells contained in Section 4.2(b) and (ii) rights to terminate this Agreement pursuant to Section 15.1(d), the provisions set forth in this Section 4.4 shall be the sole and exclusive right and remedy of Purchaser with respect to any Title Defect or any other title matter with respect to any Asset and Purchaser hereby waives all other rights and remedies.

**Section 4.5 Title Defect Amounts.** The amount by which the Allocated Value of an affected Title Defect Property is reduced as a result of the existence of a Title Defect shall be the "Title Defect Amount" and shall be determined in accordance with the following:

(a) if the Title Defect results in complete failure of title to a Title Defect Property with the effect that Seller has no ownership interest in that Title Defect Property to which an individual Allocated Value is assigned, then the Purchase Price shall be decreased by the Allocated Value for that Title Defect Property;

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(b) if the Title Defect is a decrease in Net Revenue Interest from the Net Revenue Interest set forth in Exhibit B for a Title Defect Property, then the Title Defect Amount shall be equal to the product of the Allocated Value of that Title Defect Property multiplied by a fraction, the numerator of which is the amount of Net Revenue Interest set forth in Exhibit B for that Title Defect Property less the actual amount of the Net Revenue Interest for such Title Defect Property and the denominator of which is the Net Revenue Interest set forth in Exhibit B for that Title Defect Property;

(c) if the Title Defect is a lien, encumbrance or other charge on the Assets that is undisputed and liquidated in amount, then the Title Defect Amount shall be the amount necessary to be paid to remove the Title Defect (but never more than the Allocated Value of the affected Title Defect Property);

(d) if Purchaser and Seller agree on the Title Defect Amount, then that amount shall be the Title Defect Amount;

(e) if the Title Defect represents an obligation, Encumbrance upon or other defect in title to the Title Defect Property of a type not described above, then the Title Defect Amount shall be determined by taking into account the Allocated Value of the Title Defect Property, the portion of the Title Defect Property affected by the Title Defect, the legal effect of the Title Defect, the potential economic effect of the Title Defect over the life of the Title Defect Property, the values placed upon the Title Defect by Purchaser and Seller and such other reasonable factors as are necessary to make a proper evaluation; provided, however, that if such Title Defect is reasonably capable of being cured, then the Title Defect Amount shall not be greater than the reasonable cost and expense of curing such Title Defect;

(f) the Title Defect Amount with respect to a Title Defect Property shall be determined without duplication of any costs or losses included in another Title Defect Amount hereunder;

(g) if a Title Defect does not affect a Title Defect Property throughout the entire remaining productive life of such Title Defect Property, such fact shall be taken into account in determining the Title Defect Amount; and

(h) notwithstanding anything to the contrary herein, the aggregate Title Defect Amounts attributable to the effects of all Title Defects upon any single Title Defect Property shall not exceed the Allocated Value of such Title Defect Property.

**Section 4.6 Title Limitations.** Notwithstanding anything to the contrary, (a) in no event shall there be any adjustments to the Purchase Price or other remedies provided by Seller for any individual Title Defect for which the Title Defect Amount does not exceed ONE HUNDRED THOUSAND DOLLARS (\$100,000.00) (the "Individual Title Defect Threshold"); and (b) in no event shall there be any adjustments to the Purchase Price or other remedies provided by Seller for any Title Defect that exceeds the Individual Title Defect Threshold unless the sum of the Title Defect Amounts of all such Title Defects that exceed the Individual Title Defect Threshold (excluding any Title Defects cured by Seller) exceeds five percent (5%) of the Purchase Price (the "Aggregate Title Defect Deductible"), after which point Purchaser shall be entitled to



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adjustments to the Purchase Price or other remedies only with respect to such Title Defects in excess of such Aggregate Title Defect Deductible (after reducing the value of each such Title Defect by the Individual Title Defect Threshold). For the avoidance of doubt, if Seller elects to exclude a Title Defect Property affected by a Title Defect from the transactions contemplated hereby pursuant to the remedy set forth in Section 4.4(b) or indemnify Purchaser with respect to any Title Defect pursuant to the remedy set forth in Section 4.4(a), then, after such election, the Title Defect Amount and related Purchase Price adjustment relating to such excluded Assets or such Assets for which Seller has provided an indemnity to Purchaser will not be counted towards the Aggregate Title Defect Deductible or for purposes of Section 8.4 and Section 9.4.

**Section 4.7 Title Benefits.** If Seller determines that the ownership of any Well entitles Seller to a larger net revenue interest or a smaller working interest (without a corresponding decrease in the net revenue interest) than that set forth on Exhibit B (a "Title Benefit"), then Seller shall notify Purchaser of such increase in writing on or before the Defect Notice Date, describing in such notice with reasonable detail each alleged increase so discovered and a reasonable estimate of the value attributable to the applicable Title Benefit. Purchaser shall also promptly furnish Seller with written notice of any Title Benefit that is discovered prior to the Defect Notice Date by any of Purchaser's or any of its Affiliate's employees, title attorneys, landmen or other title examiners while conducting Purchaser's due diligence with respect to the Assets. The amount of any such Title Benefit (each, a "Title Benefit Amount") shall be determined in the same manner as provided in Section 4.5 with respect to Title Defects.

**Section 4.8 Preferential Purchase Rights and Consents to Assign.**

(a) Seller, within fifteen (15) days following the date of execution of this Agreement, shall send to each holder of (i) a preferential purchase right pertaining to any of the Assets (a "Preferential Right") and (ii) a right to consent to assignment pertaining to the Assets and the transactions contemplated hereby, a notice seeking a waiver of such Preferential Right or such holder's consent to the transactions contemplated hereby, as applicable, in accordance with the contractual provisions applicable to such right. In no event shall Seller be required to incur any liability or pay any money in order to be in to obtain any such waiver or consent. Purchaser shall cooperate with Seller in seeking to obtain such waivers of Preferential Rights and consents to assignment and will provide any additional collateral or security to meet reasonable financial requirements demanded by counterparties in order to obtain waivers of Preferential Rights and consents from such counterparties.

(b) If, prior to Closing, any holder of a Preferential Right notifies Seller that it intends to consummate the purchase of the Assets to which its Preferential Right applies or the time for exercising a Preferential Right has not expired and such Preferential Right has not been exercised or waived, then those Assets subject to such Preferential Right shall be excluded from the Assets to be conveyed to Purchaser under this Agreement (together with all Assets directly relating thereto but only to the extent relating thereto), and the Purchase Price shall be reduced by the Allocated Values of all such excluded Assets and in such event, Seller shall be entitled to all proceeds paid by any Person exercising such Preferential Right. If such holder of such Preferential Right thereafter fails to consummate the purchase of the Assets subject to such Preferential Right in accordance with the terms thereof, the time for exercising such Preferential Right has expired and such Preferential Right has not been exercised, or the Preferential Right has been waived, (i)



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Seller shall so notify Purchaser, (ii) Purchaser shall purchase, on or before ten (10) Business Days following receipt of such notice, such Assets that were so excluded from the Assets to be assigned to Purchaser at Closing, for a price equal to the amount by which the Purchase Price was reduced at Closing with respect to such excluded Assets and on the same other terms of this Agreement, including the adjustments in accordance with Section 3.2 and Section 3.3, and (iii) Seller shall assign to Purchaser such Assets so excluded at Closing pursuant to an instrument in substantially the same form as the Assignment.

(c) If Seller fails to obtain a Required Consent prior to Closing, then, in each case, the Asset affected by such un-obtained Required Consent (together with all Assets directly relating thereto but only to the extent relating thereto) shall be excluded from the Assets to be assigned to Purchaser at Closing, and the Purchase Price shall be reduced by the Allocated Value of such Assets so excluded. In the event that any such Required Consent (with respect to Assets excluded pursuant to this Section 4.8(c)) that was not obtained prior to the Closing Date is obtained within ninety (90) days following the Closing Date, then, within ten (10) Business Days after such Required Consent is obtained, (i) Seller shall so notify Purchaser, (ii) Purchaser shall purchase, on or before ten (10) Business Days following receipt of such notice, such Assets that were so excluded from the Assets to be assigned to Purchaser at Closing, for a price equal to the amount by which the Purchase Price was reduced at Closing with respect to such excluded Assets and on the same other terms of this Agreement, including the adjustments in accordance with Section 3.2 and Section 3.3, and (iii) Seller shall assign to Purchaser the Assets so excluded at Closing pursuant to an instrument in substantially the same form as the Assignment. If, prior to Closing, Seller fails to obtain a consent to assign and such consent to assign is not a Required Consent, then the Assets subject to such un-obtained consent shall be assigned by Seller to Purchaser at Closing as part of the Assets and Purchaser shall have no claim against Seller, Purchaser hereby releases and indemnifies the Seller Parties from any Losses relating to the failure to obtain such consent, and Purchaser shall be solely responsible for any and all Losses arising from the failure to obtain such consent.

#### Section 4.9 Environmental Assessment.

(a) Prior to the Defect Notice Date, and upon reasonable prior notice to Seller (and notice and consent of the operator(s) of any of the Assets not operated by Seller or its Affiliates), and subject to the other provisions of this Section 4.9 and the indemnity provisions of Section 7.4 below, Purchaser shall have the right to enter upon the Assets, inspect the same and conduct such tests, examinations, investigations, and studies as may be necessary or appropriate to determine the environmental condition of the Assets ("Purchaser's Environmental Assessment"). Any such entry onto the Assets is subject to all third-party restrictions, if any, and to Seller's safety, health and environmental policies and procedures, including drug, alcohol and firearms restrictions, and shall be at Purchaser's sole risk and expense. Purchaser shall coordinate its access rights, environmental property assessments and physical inspections of the Assets with Seller and all third party operators, as applicable, to minimize any inconvenience to or interruption of the conduct of business by Seller or any such third party operator.

(b) Notwithstanding anything herein to the contrary, for anything other than a Phase I environmental property assessment, Purchaser must obtain Seller's prior written consent

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(which consent may be withheld in Seller's sole discretion) and any third party operator's consent as to the scope of any proposed environmental assessment, including testing protocols.

(c) In conducting any assessment or inspection of the Assets, Purchaser shall not operate any equipment or (except with the prior written consent of Seller, which consent may be withheld in Seller's sole discretion, and any third party operator's consent) conduct any testing or sampling of soil, groundwater or other materials (including any testing or sampling for hazardous substances or NORM).

(d) Seller or Seller's designee shall have the right to be present during any stage of any inspection or assessment by Purchaser on the Assets.

(e) During all periods prior to Closing that Purchaser or any of its representatives (including Purchaser's environmental consulting or engineering firm) are on the Assets, Purchaser shall maintain, at its sole cost and expense, and with insurers reasonably satisfactory to Seller, policies of insurance of the types and in the amounts reasonably requested by Seller. Coverage under all insurance required to be carried by Purchaser hereunder will be primary insurance. Upon request by Seller, Purchaser shall provide evidence of such insurance to Seller prior to entering the Assets.

(f) Within five (5) days of the Purchaser's receipt (if performed by a third party) or completion thereof (if performed by Purchaser), Purchaser shall deliver to seller copies of all final reports, results, data and analyses of Purchaser's Environmental Assessment. Seller shall have no confidentiality obligation with regard to such information so provided and Seller shall not be deemed (by Seller's receipt of said documents or otherwise) to have made any representation or warranty, express, implied or statutory, as to the condition of the Assets or to the accuracy of said documents or the information contained therein.

(g) Upon completion of Purchaser's due diligence, Purchaser shall at its sole cost and expense and without any cost or expense to Seller or its Affiliates, (i) repair all damage done to the Assets (including the real property and other assets associated therewith) in connection with Purchaser's due diligence investigation, (ii) restore the Assets (including the real property and other assets associated therewith) to at least the approximate same condition than they were prior to commencement of Purchaser's due diligence investigation, and (iii) remove all equipment, tools or other property brought onto the Assets in connection with such due diligence investigation. Any disturbance to the Assets (including the real property and other assets associated therewith) resulting from the due diligence investigation conducted by or on behalf of Purchaser will be promptly corrected by Purchaser.

**Section 4.10 Environmental Defect Notice.** If Purchaser determines, as a result of Purchaser's Environmental Assessment or otherwise that there exists an Environmental Defect, Purchaser shall notify Seller thereof in writing as soon as practicable after Purchaser has knowledge thereof, but in any event prior to the Defect Notice Date (each an "Environmental Defect Notice"). For all purposes of this Agreement and notwithstanding anything herein to the contrary, Purchaser shall be deemed to have waived, and Seller shall have no liability for, any Environmental Defect that Purchaser fails to assert as an Environmental Defect by an Environmental Defect Notice received by Seller on or before the Defect Notice Date. To be

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effective, each Environmental Defect Notice shall include: (a) a detailed description of the alleged Environmental Defect, (b) the Well or other Asset affected by such Environmental Defect (each an "Environmental Defect Property"), (c) the Allocated Value of such Environmental Defect Property, (d) supporting documents reasonably necessary for Seller to verify the existence of the asserted Environmental Defect, (e) the specific Environmental Law that is applicable to the Environmental Defect and the violation of such Environmental Law and (f) Purchaser's good faith estimate of the Remediation Amount. Purchaser's calculation of the Remediation Amount included in the Environmental Defect Notice for any alleged Environmental Defect must describe in reasonable detail the Remediation proposed for such Environmental Defect and identify all assumptions used by Purchaser in calculating the Remediation Amount with respect thereto, including the standards that Purchaser asserts must be met to comply with Environmental Laws. Seller shall have the right but not the obligation to attempt to Remediate any Environmental Defect Property and, if Seller so elects, then Seller shall have sixty (60) days following Closing in which to Remediate, at Seller's cost, the Environmental Defect. No adjustment to the Purchase Price will be made at Closing for any Environmental Defect that Seller elects to attempt to cure pursuant to this Section 4.10 and the affected Environmental Defect Property shall be assigned to Purchaser. If such Environmental Defect Property has not been remediated at the end of such sixty (60) day period, then (except as provided in Section 4.11(a)) an adjustment to the Purchase Price in an amount equal to the applicable Remediation Amount will be made as part of the Final Settlement Statement.

**Section 4.11 Remedies for Environmental Defects.** Subject to Seller's continuing right to dispute the existence of an Environmental Defect and/or the Remediation Amount asserted with respect thereto and subject to the Individual Environmental Defect Threshold and the Aggregate Environmental Defect Deductible, with respect to any Environmental Defect asserted by Purchaser that (i) Seller does not elect to attempt to Remediate or (ii) Seller elects to attempt to Remediate and fails to Remediate within sixty (60) days after Closing:

(a) Seller shall have the right, but not the obligation, to elect to indemnify Purchaser against all Losses resulting from such Environmental Defect pursuant to an indemnity agreement in a form mutually agreeable to the Parties, in which event the Purchase Price shall not be reduced and the affected Environmental Defect Property shall be transferred to (or if after Closing, retained by) Purchaser notwithstanding and subject to such Environmental Defect;

(b) at or prior to the Closing, Seller shall have the right, but not the obligation, to elect to exclude the Asset subject to the Environmental Defect from the transactions contemplated hereby, in which event such Asset and all Assets directly relating thereto (but only to the extent relating thereto) shall be excluded from the transactions contemplated hereby and the Purchase Price shall be reduced by the Allocated Value of such Asset and related Assets; or

(c) if both Section 4.11(a) and Section 4.11(b) above are not applicable, the affected Environmental Defect Property shall be transferred to (or if after Closing, retained by) Purchaser notwithstanding and subject to the Environmental Defect, and the Purchase Price shall be reduced by an amount equal to the Remediation Amount for the affected Environmental Defect Property.



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Except for Purchaser's rights to terminate this Agreement pursuant to Section 15.1(d), the provisions set forth in this Section 4.11 shall be the exclusive right and remedy of Purchaser with respect to any Environmental Defect or the environmental condition of any Asset and Purchaser hereby waives all other rights and remedies.

**Section 4.12 Environmental Limitations.** Notwithstanding anything to the contrary, (a) in no event shall there be any adjustments to the Purchase Price or other remedies provided by Seller for any individual Environmental Defect for which the Remediation Amount does not exceed ONE HUNDRED THOUSAND DOLLARS (\$100,000.00) (the "Individual Environmental Defect Threshold"); and (b) in no event shall there be any adjustments to the Purchase Price or other remedies provided by Seller for any Environmental Defect that exceeds the Individual Environmental Defect Threshold unless the sum of all Remediation Amounts of all Environmental Defects that exceed the Individual Environmental Defect Threshold (excluding any Environmental Defects remediated by Seller) exceeds five percent (5%) of the Purchase Price (the "Aggregate Environmental Defect Deductible"), after which point Purchaser shall be entitled to adjustments to the Purchase Price or other remedies only with respect to such Environmental Defects in excess of such Aggregate Environmental Defect Deductible (after reducing the value of each such Environmental Defect by the Individual Environmental Defect Threshold). For the avoidance of doubt, if Seller elects to exclude an Asset affected by an Environmental Defect from the transactions contemplated hereby pursuant to the remedy set forth in Section 4.11(b) or indemnify Purchaser with respect to any Environmental Defect pursuant to the remedy set forth in Section 4.11(a), then, after such election, the Remediation Amount for such Environmental Defect and related Purchase Price adjustment relating to such excluded Assets or such Assets for which Seller has provided an indemnity to Purchaser will not be counted towards the Aggregate Environmental Defect Deductible or for purposes of Section 8.4 and Section 9.4.

**Section 4.13 Casualty Loss.**

(a) Notwithstanding anything herein to the contrary from and after the Effective Time, subject to the remaining provisions of this Section 4.13, if Closing occurs, Purchaser shall assume all risk of loss with respect to production of Hydrocarbons through normal depletion (including watering out of any Well, collapsed casing or sand infiltration of any Well) and the depreciation of all Wells and/or personal property due to ordinary wear and tear, in each case, with respect to the Assets.

(b) If, after the date of the execution of this Agreement but prior to the Closing Date, any portion of the Assets is destroyed or taken in connection with a Casualty Loss and the loss in value of such Assets as a result of such Casualty Loss (net to Seller's interest in the Assets), in the aggregate, exceeds five percent (5%) of the Purchase Price, then, subject to Section 15.1(d), Purchaser shall nevertheless be required to close and Seller shall elect by written notice to Purchaser prior to Closing: (i) with Purchaser's consent, to cause the Assets adversely affected by any such Casualty Loss to be repaired or restored to at least their condition prior to such Casualty Loss, at Seller's sole cost and expense, as promptly as reasonably practicable (which repair or restoration may extend after Closing), (ii) to exclude the Assets adversely affected by such Casualty Loss and any Asset related thereto (to the extent so related) and reduce the Purchase Price by the Allocated Value of such excluded Assets or (iii) to assign the Assets adversely affected by such Casualty Loss and reduce the Purchase Price by the loss in value of such Assets as a result of



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such Casualty Loss. In each case, Seller shall retain all right, title and interest (if any) in insurance claims, unpaid awards and other rights (in each case) against third parties arising out of such Casualty Loss with respect to the Assets, except to the extent the Parties otherwise agree in writing.

(c) If, after the date of the execution of this Agreement but prior to the Closing Date, any Casualty Loss occurs, and the loss in value of the Assets as a result of such Casualty Loss (net to Seller's interest in the Assets), in the aggregate, is equal to or less than five percent (5%) of the Purchase Price, then, subject to Section 15.1(d), Purchaser shall nevertheless be required to close and Seller, at Closing, shall pay to Purchaser all sums received by Seller from unaffiliated third parties by reason of such Casualty Losses insofar as with respect to the Assets and Seller shall assign, transfer and set over to Purchaser or subrogate Purchaser to all of Seller's right, title and interest (if any) in unpaid awards and other rights (in each case) against unaffiliated third parties (excluding, for the avoidance of doubt, any Losses against any member of the Seller Parties) arising out of such Casualty Losses insofar as with respect to the Assets (provided, however, that Seller shall reserve and retain all rights, title, interests and claims against such third parties for the recovery of Seller's costs and expenses incurred prior to Closing in pursuing or asserting any such insurance claims or other rights against such third parties with respect to any such Casualty Loss).

(d) Notwithstanding the foregoing, if the Casualty Loss consists of any taking under condemnation or eminent domain, the Purchase Price shall be reduced by the Allocated Value of such Assets so taken.

## ARTICLE V REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Purchaser as follows:

**Section 5.1 Organization, Existence and Qualification.** Seller is an entity duly formed and validly existing under the Laws of the State of Delaware and in good standing under the laws of the State of Delaware. Seller has all requisite power and authority to own and operate the Assets and to carry on its business with respect thereto as currently conducted. Seller is duly licensed or qualified to do business as a limited liability company in all jurisdictions in which the Assets are located, except where the failure to be so qualified would not reasonably be expected to have a Material Adverse Effect.

**Section 5.2 Authority, Approval and Enforceability.** Seller has the power and authority to enter into and perform this Agreement and all Transaction Documents to be delivered at Closing by Seller and the transactions contemplated hereby and thereby. The execution, delivery and performance by Seller of this Agreement have been, and the Transaction Documents to which Seller is a party will be at Closing, duly and validly authorized and approved by all necessary limited liability company action on the part of Seller. This Agreement is, and the Transaction Documents to which Seller is a party when executed and delivered by Seller will be, the valid and binding obligation of Seller and enforceable against Seller in accordance with their respective terms, subject to the effects of bankruptcy, insolvency, reorganization, moratorium and similar Laws, as well as to principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at Law).

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**Section 5.3 No Conflicts.** Assuming the receipt of all applicable consents and approvals in connection with the transactions contemplated hereby and the waiver of, or compliance with, all Preferential Rights applicable to the transactions contemplated hereby, the execution, delivery and performance of this Agreement, and the Transaction Documents to be delivered by Seller at Closing, by Seller, and the consummation by Seller of the transactions contemplated hereby and thereby, will not (a) violate any provision of the organizational documents of Seller, (b) violate, or result in the creation of any Encumbrance under, any material agreement or instrument to which Seller is a party or by which Seller or any of the Assets are bound, (c) violate any judgment, order, ruling, or decree applicable to Seller as a party in interest, or (d) violate any Law applicable to Seller relating to the Assets, except in the case of subsection (b), (c) or (d) where such violation would not reasonably be expected to have a Material Adverse Effect.

**Section 5.4 Asset Taxes.** To Seller's Knowledge, except as set forth on Schedule 5.4, (a) all tax returns relating to or prepared in connection with material Asset Taxes that are required to be filed by Seller have been timely filed and all such tax returns are correct and complete in all material respects and (b) all material Asset Taxes that are or have become due have been timely paid in full, and Seller is not delinquent in the payment of any such Taxes, or, in either case, such Taxes are currently being contested in good faith by Seller.

**Section 5.5 Bankruptcy.** There are no bankruptcy or receivership proceedings pending, being contemplated by or, to Seller's Knowledge, threatened in writing against Seller.

**Section 5.6 Foreign Person.** Seller is not a "foreign person" within the meaning of Section 1445 of the Code.

**Section 5.7 Brokers.** Neither Seller nor any of its Affiliates has incurred any obligation or liability for brokers' or finders' fees relating to the transactions contemplated hereby for which Purchaser or any of its Affiliates will be liable or have any responsibility.

**Section 5.8 Preferential Rights.** To Seller's Knowledge, except as set forth in Schedule 5.8, there are no Preferential Rights that are applicable to the transfer of the Assets by Seller to Purchaser.

**Section 5.9 Litigation.** To Seller's Knowledge, except as set forth in Schedule 5.9 or as would not reasonably be expected to have a Material Adverse Effect, as of the date of the execution of this Agreement, there is no suit, action or litigation by or before any governmental authority, and no arbitration proceedings, (in each case) pending and served on Seller, or, to Seller's Knowledge, threatened in writing, against Seller (in each case) with respect to the Assets.

**Section 5.10 Current Commitments.** To Seller's Knowledge, Schedule 5.10 sets forth, as of the date of the execution of this Agreement, all authorities for expenditures ("AFE's") that (a) relate to drilling or reworking a Well, or (b) are in excess of ONE HUNDRED THOUSAND DOLLARS (\$100,000.00), net to Seller's interest in the Assets.

**Section 5.11 Suspense Funds.** Except as set forth in Schedule 5.11, as of the date set forth on such Schedules, neither Seller nor its Affiliates holds (in escrow or otherwise) any Suspense Funds that Seller shall transfer to Purchaser.

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**Section 5.12 Payment of Royalties.** To Seller's Knowledge, Seller has in all material respects properly and timely paid, or caused to be paid, all royalties, overriding royalties, net profits interests, production payments and other similar burdens measured by or payable out of production of Hydrocarbons due with respect the Assets.

**Section 5.13 Imbalance Volumes.** To Seller's Knowledge, except as disclosed on Schedule 5.13, there are no material Imbalances associated with the Assets.

**Section 5.14 Material Contracts.**

(a) To Seller's Knowledge, Schedule 5.14 sets forth all Existing Contracts of the type described below as of the date of the execution of this Agreement (the Existing Contracts contained on such Schedule, collectively, the "Material Contracts"):

(i) any Existing Contract that can reasonably be expected to result in aggregate payments of more than TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00) (net to Seller's interest) during the current or any subsequent fiscal year (based solely on the terms thereof and current volumes, without regard to any expected increase in volumes or revenues);

(ii) any Existing Contract that can reasonably be expected to result in aggregate revenues of more than TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00) (net to Seller's interest) during the current or any subsequent fiscal year (based solely on the terms thereof and current volumes, without regard to any expected increase in volumes or revenues);

(iii) any Existing Contract that is a Hydrocarbon purchase and sale, transportation, processing or similar Existing Contract and that is not terminable without penalty upon ninety (90) days or less notice;

(iv) any Existing Contract that is an indenture, mortgage, loan, credit or sale-leaseback or similar Existing Contract;

(v) any Existing Contract between any Seller and any Affiliate of any Seller that will not be terminated prior to Closing; and

(vi) any Existing Contract that (A) contains or constitutes an existing area of mutual interest agreement or (B) includes non-competition restrictions or other similar restrictions on doing business.

To Seller's Knowledge, except as set forth in Schedule 5.14, and except for such matters that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, there exists no default under any Material Contract by Seller or by any other Person that is a party to such Material Contract.

**Section 5.15 Compliance with Laws.** To Seller's Knowledge, the Assets have been owned and operated by Seller in compliance with all applicable Laws, excluding Environmental Laws, except where such failures to be in compliance, individually or in the aggregate, would not

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reasonably be expected to have a Material Adverse Effect. Notwithstanding the foregoing, to the extent that Seller has made any representations or warranties in this Article V in connection with matters relating to any Assets not operated by Seller, each and every such representation and warranty shall be deemed to be qualified by the phrase "To Seller's Knowledge" to the extent such individual representations or warranties does not already contain such qualification.

## ARTICLE VI REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Seller as follows:

**Section 6.1 Organization, Existence and Qualification.** Purchaser is an entity duly formed and validly existing under the Laws of the State of Delaware and in good standing under the laws of the State of Delaware. Purchaser has all requisite power and authority to own and operate its property (including interests in the Assets following Closing) and to carry on its business with respect thereto. Purchaser is duly licensed or qualified to do business as a limited liability company in all jurisdictions in which the Assets are located, except where the failure to be so qualified would not reasonably be expected to have a material adverse effect on Purchaser's ability to consummate the transactions contemplated by this Agreement and perform its obligations hereunder.

**Section 6.2 Authority, Approval and Enforceability.** Purchaser has the power and authority to enter into and perform this Agreement and all Transaction Documents to be delivered at Closing by Purchaser and the transactions contemplated hereby and thereby. The execution, delivery and performance by Purchaser of this Agreement have been, and the Transaction Documents to which Purchaser is a party will be at Closing, duly and validly authorized and approved by all necessary limited liability company action on the part of Purchaser. This Agreement is, and the Transaction Documents to which Purchaser is a party when executed and delivered by Purchaser will be, the valid and binding obligation of Purchaser and enforceable against Purchaser in accordance with their respective terms, subject to the effects of bankruptcy, insolvency, reorganization, moratorium and similar Laws, as well as to principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at Law).

**Section 6.3 No Conflicts.** The execution, delivery and performance of this Agreement, and the Transaction Documents to be delivered by Purchaser at Closing, by Purchaser, and the consummation by Purchaser of the transactions contemplated hereby and thereby, will not violate any provision of the organizational documents of Purchaser, (b) violate or result in the creation of any Encumbrance under any material agreement or instrument to which Purchaser is a party or by which its assets are subject (c) violate any judgment, order, ruling, or decree applicable to Purchaser as a party in interest, or (d) violate any Law applicable to Purchaser, except in the case of subsection (b), (c) or (d) where such violation would not reasonably be expected to have a material adverse effect on Purchaser's ability to consummate the transactions contemplated by this Agreement and perform its obligations hereunder.

**Section 6.4 Bankruptcy.** There are no bankruptcy or receivership proceedings pending, being contemplated by or, to Purchaser's knowledge, threatened in writing against Purchaser.



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**Section 6.5 Brokers.** Neither Purchaser nor any of its Affiliates has incurred any obligation or liability for brokers' or finders' fees relating to the transactions contemplated hereby for which Seller or any of its Affiliates will be liable or have any responsibility.

**Section 6.6 Consents.** There are no requirements for consents or approvals from third parties in connection with the consummation by Purchaser of the transactions contemplated by this Agreement.

**Section 6.7 No Distribution.** Purchaser is acquiring the Assets for its own account and not with the intent to make a distribution in violation of the Securities Act of 1933, as amended (and the rules and regulations pertaining thereto), or in violation of any other applicable securities Laws.

**Section 6.8 Knowledge and Experience.** Purchaser is sophisticated in the evaluation, purchase, ownership and operation of oil and gas properties and related facilities. In making its decision to enter into this Agreement and to consummate the transactions contemplated hereby, Purchaser has solely relied (a) on the representations and warranties of Seller set forth in Article V and (b) on its own independent investigation and evaluation of the Assets and the advice of its own legal, Tax, economic, environmental, engineering, geological and geophysical advisors and not on any comments, statements, projections or other material made or given by any representative, consultant or advisor of Seller. Purchaser hereby acknowledges that, other than the representations and warranties made by Seller in Article V and the special warranty of title with respect to the Wells, neither Seller nor any representatives, consultants or advisors of Seller or its Affiliates will make or have made any representation or warranty, express or implied, at Law or in equity, with respect to the Assets. Purchaser is able to bear the risks of the acquisition of the Assets, and assumption of the obligations, in accordance with and as set forth in this Agreement, and understands the risks of, and other considerations relating to, a purchase of the Assets.

**Section 6.9 Regulatory.** No later than five (5) days prior to the Scheduled Closing Date, Purchaser shall be qualified to own and assume operatorship of oil, gas and mineral leases in all jurisdictions where the Assets are located, and the consummation of the transactions contemplated by this Agreement will not cause Purchaser to be disqualified as such an owner or operator. To the extent required by any applicable Laws, Purchaser shall, as of the Scheduled Closing Date, (a) hold all lease bonds and any other surety or similar bonds as may be required by, and in accordance with, all applicable Laws governing the ownership and operation of the Assets and (b) have filed any and all required reports necessary for such ownership and operation with all governmental authorities having jurisdiction over such ownership and operation.

**Section 6.10 Funds.** Purchaser has, and at the Closing will have such funds as are necessary for the payment of the Purchase Price and the consummation by Purchaser of the transactions contemplated hereby, including the performance of all of Purchaser's obligations hereunder.

## **ARTICLE VII PRE-CLOSING COVENANTS OF THE PARTIES**

**Section 7.1 Operations.**

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(a) Except (w) as set forth in Section 7.1, (x) for the operations covered by the AFEs described in Section 5.10, (y) as required in the event of an emergency to protect life, property or the environment, and (z) as expressly contemplated by this Agreement or as expressly consented to in writing by Purchaser (which consent shall not be unreasonably delayed, withheld or conditioned), Seller shall, during the Interim Period:

(i) operate or, in the case of those Assets not operated by Seller or its Affiliates, use its commercially reasonable efforts to cause to be operated, the Assets in the usual, regular and ordinary manner consistent with past practice, subject to (A) Seller's right to comply with the terms of the Leases, Existing Contracts, applicable Laws and requirements of governmental authorities and (B) interruptions resulting from force majeure, mechanical breakdown and planned maintenance; and

(ii) maintain, or cause to be maintained, the books of account and Records relating to the Assets in the usual, regular and ordinary manner and in accordance with the past practices of Seller.

(b) Except (w) as set forth in Section 7.1, (x) for the operations covered by the AFEs described in Section 5.10, (y) as required in the event of an emergency to protect life, property or the environment, and (z) as expressly contemplated by this Agreement or as expressly consented to in writing by Purchaser (which consent shall not be unreasonably delayed, withheld or conditioned), Seller shall not, during the Interim Period:

(i) terminate (unless the term thereof expires pursuant to the provisions existing therein), materially amend, extend or surrender any rights under any Lease or Right-of-Way; provided that Seller shall be permitted to amend any Lease to increase its pooling authority;

(ii) subject to Section 7.1(d), propose or approve any individual AFE or similar request under any Existing Contract (other than those expressly required under the terms of any Existing Contract or by any order of a governmental authority) that would reasonably be estimated to require expenditures by Seller (net to its interest) in excess of ONE HUNDRED THOUSAND DOLLARS (\$100,000.00).

(iii) transfer, sell, mortgage, pledge or dispose of any material portion of the Assets other than the (A) sale and/or disposal of Hydrocarbons in the ordinary course of business and (B) sales of equipment that is no longer necessary in the operation of the Assets or for which replacement equipment has been obtained; or

(iv) commit to do any of the foregoing.

(c) Purchaser acknowledges Seller owns undivided interests in certain of the properties comprising the Assets that it is not the operator thereof, and Purchaser agrees that the acts or omissions of the other Working Interest owners (including the operators) who are not Seller or any Affiliates of Seller shall not constitute a breach by Seller of the provisions of this Section 7.1, nor shall any action required by a vote of Working Interest owners constitute such a breach so long as Seller has voted its interest in a manner that complies with the provisions of this Section 7.1.

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(d) With respect to any AFE or similar request received by Seller that is estimated to cost in excess of ONE HUNDRED THOUSAND DOLLARS (\$100,000.00), Seller shall forward such AFE to Purchaser as soon as is reasonably practicable and thereafter the Parties shall consult with each other regarding whether or not Seller should elect to participate in such operation. Purchaser agrees that it will (i) timely respond to any written request for consent pursuant to this Section 7.1(d), and (ii) consent to any written request for approval of any AFE or similar request that Purchaser reasonably considers to be economically viable. In the event the Parties are unable to agree within ten (10) days (unless a shorter time, not to be less than 48 hours, is reasonably required by the circumstances and the applicable joint operating agreement and such shorter time is specified in Seller's request for consent) of Purchaser's receipt of any consent request as to whether or not Seller should elect to participate in such operation, Seller's decision shall control and such operation shall be deemed to have been consented to by Purchaser.

**Section 7.2 Governmental Bonds.** Purchaser acknowledges that none of the bonds, letters of credit and guarantees, if any, posted by Seller or its Affiliates with governmental authorities and relating to the Assets are transferable to Purchaser. On or before the Closing Date, Purchaser shall obtain replacements for all such bonds, letters of credit and guarantees to the extent such replacements are necessary for Purchaser's ownership and/or operation of the Assets. At Closing, Purchaser shall cause the cancellation of the bonds, letters of credit and guarantees posted by Seller of its Affiliates with respect to the Assets.

**Section 7.3 Amendment of Schedules.** Purchaser agrees that, with respect to the representations and warranties of Seller contained in this Agreement, Seller shall have the continuing right until the Closing to add, supplement or amend the Schedules to its representations and warranties with respect to any matter hereafter arising or discovered which, if existing or known at the date of the execution of this Agreement or thereafter, would have been required to be set forth or described in such Schedules. For purposes of determining whether the conditions set forth in Article VIII have been fulfilled, the Schedules to Seller's representations and warranties contained in this Agreement shall be deemed to include only that information contained therein on the date of the execution of this Agreement and shall be deemed to exclude all information contained in any addition, supplement or amendment thereto; provided, however, that if the Closing shall occur, then all matters disclosed pursuant to any such addition, supplement or amendment at or prior to the Closing shall be waived and Purchaser shall not be entitled to make a claim with respect thereto pursuant to the terms of this Agreement or otherwise.

**Section 7.4 Indemnity Regarding Access.** Purchaser hereby defends, indemnifies and holds harmless each of the operators of the Assets and the Seller Group from and against any and all Losses arising out of, resulting from or relating to, any field visit, environmental property assessment, or other due diligence activity conducted by Purchaser or any Purchaser's Affiliates or their respect representatives (including any environmental consultant or landman) with respect to the Assets, **EVEN IF SUCH LOSSES ARISE OUT OF OR RESULT FROM, SOLELY OR IN PART, THE SOLE, ACTIVE, PASSIVE, CONCURRENT OR COMPARATIVE NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT OR VIOLATION OF LAW OF OR BY A MEMBER OF THE SELLER GROUP PARTIES, EXCEPTING ONLY IN THE CASE OF THIS SECTION 7.4 LOSSES ACTUALLY RESULTING ON THE ACCOUNT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF A MEMBER OF**

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**THE SELLER GROUP.** For the avoidance of doubt, this indemnity shall survive any termination of this Agreement, if applicable, and the Closing.

**Section 7.5 Financial Security.**

(a) As a condition of Closing, Purchaser will deliver to Seller at Closing an irrevocable performance bond in the amount of FIVE MILLION DOLLARS (\$5,000,000.00) in favor of Seller (the "Performance Bond") as evidence of Purchaser's financial security to guarantee Purchaser's obligations provided in Section 11.1(b). The Performance Bond shall be in a form substantially similar to the form attached as Exhibit I, issued by a financial institution acceptable to Seller, as Surety, being one with an A.M. Best Financial Strength Rating of "A" and an A.M. Best's Financial Size Category of XII.

(b) Upon occurrence of any of the following, Seller may draw on the Performance Bond, in whole or in part, without prior notice to Purchaser: (i) Seller is required in any manner to perform any Plugging and Abandonment Obligations, whether pursuant to an order or directive issued by a governmental body or regulatory agency or otherwise; (ii) Purchaser is in default of any Plugging and Abandonment Obligation and Seller has opted to therefore perform any or all such obligations of Purchaser (provided however that nothing herein shall be construed as imposing an obligation upon Seller to so perform); or (iii) Purchaser commences proceedings or has proceedings commenced against it (which proceedings are not stayed within twenty-one (21) days of service thereof on Purchaser) in the nature of bankruptcy resulting from the insolvency or its liquidation or for the appointment of a receiver, administrator, trustee in bankruptcy or liquidator or its undertakings or assets. Provided, however, that a reorganization bankruptcy such as a Chapter 11 shall not be an event of default if Purchaser does not reject the Plugging and Abandonment Obligation, the Performance Bond remains in place and Purchaser is not in default of any Plugging and Abandonment Obligations.

(c) Seller shall release the Performance Bond in favor of Seller on or before the date that is one hundred and twenty (120) days from the date of receipt of evidence reasonably satisfactory to it that Purchaser has performed all obligations to abandon, restore and Remediate the Assets contemplated by Section 11.1(b). For purposes of this Section 7.5 and Section 11.1(b), evidence that a Plugging and Abandonment Obligation has been performed shall include written documentation as may be provided by any governmental authority under applicable law to reflect completion of a Plugging and Abandonment Obligation (including, without limitation, forms and documentation related to plugging and abandonment activities, decommissioning activities, site clearance activities and pipeline abandonment or removal activities and completion of remediation activities). Until such time as all of the Plugging and Abandonment Obligations with respect to the Assets have been performed, Seller reserves access rights to the Assets for the limited purpose of performing, documenting and/or verifying the Plugging and Abandonment Obligations, as needed.

(d) The provisions of this Section 7.5 are (i) binding on all successors and assigns of Purchaser with respect to any of the Assets and (ii) covenants running with the Assets. For the avoidance of doubt, in the event Purchaser sells, assigns or otherwise transfers less than all of the Wells to a transferee, the transferee shall be required to obtain a Performance Bond as set forth herein with respect to such transferee shall apply as to the Assets so sold, assigned or otherwise



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transferred, but shall not relieve Purchaser's obligation to maintain the Performance Bond as to any Assets it retains.

#### **ARTICLE VIII PURCHASER'S CONDITIONS TO CLOSING**

The obligations of Purchaser to consummate the transactions provided for herein are subject, at the option of Purchaser, to the fulfillment by Seller or waiver by Purchaser, on or prior to Closing of each of the following conditions:

**Section 8.1 Representations.** Each of the representations and warranties of Seller set forth in Article V shall be true and correct in all respects on and as of the Closing Date, with the same force and without giving effect to any qualifiers as to materiality, including Material Adverse Effect, as though such representations and warranties had been made or given on and as of the Closing Date (other than representations and warranties that refer to a specified date, which need only be true and correct on and as of such specified date), except for those breaches, if any, of such representations and warranties that in the aggregate would not have a Material Adverse Effect.

**Section 8.2 Performance.** Seller shall have performed or complied in all material respects with all obligations, agreements, and covenants contained in this Agreement as to which performance or compliance by Seller is required prior to or at the Closing Date.

**Section 8.3 No Legal Proceedings.** No suit, action, or other proceeding by any unaffiliated third party shall be pending by or before any governmental authority seeking to restrain, prohibit, enjoin, or declare illegal, or seeking substantial damages in connection with, the transactions contemplated by this Agreement.

**Section 8.4 Title Defects, Environmental Defects and Casualty Loss.** Without giving effect to the Aggregate Title Defect Deductible or the Aggregate Environmental Defect Deductible, the sum of (a) the Title Defect Amounts of all uncured Title Defects exceeding the Individual Title Defect Threshold, plus (b) all Remediation Amounts for uncured Environmental Defects exceeding the Individual Environmental Defect Threshold, plus (c) the amount of loss in value of the Assets resulting from all Casualty Losses, as determined in accordance with Section 4.13, minus the aggregate Title Benefit Amounts of all Title Benefits as determined pursuant to Section 4.7, shall be less than twenty-five percent (25%) of the Purchase Price.

**Section 8.5 Closing Certificate.** Seller shall have executed and delivered to Purchaser an officer's certificate, dated as of the Closing Date and substantially in the form of Exhibit F, certifying that the conditions set forth in Section 8.1 and Section 8.2 have been fulfilled and, if applicable, any exceptions to such conditions that have been waived by Purchaser.

**Section 8.6 Closing Deliverables.** Seller shall have delivered (or be ready, willing and able to deliver at Closing) to Purchaser the documents required to be delivered by Seller at Closing.

#### **ARTICLE IX SELLER'S CONDITIONS TO CLOSING**

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The obligations of Seller to consummate the transactions provided for herein are subject, at the option of Seller, to the fulfillment by Purchaser or waiver by Seller on or prior to Closing of each of the following conditions:

**Section 9.1 Representations.** Each of the representations and warranties of Purchaser set forth in Article VI shall be true and correct in all material respects on and as of the Closing Date, with the same force and effect as though such representations and warranties had been made or given on and as of the Closing Date (other than representations and warranties that refer to a specified date, which need only be true and correct on and as of such specified date).

**Section 9.2 Performance.** Purchaser shall have performed or complied in all material respects with all obligations, agreements, and covenants contained in this Agreement as to which performance or compliance by Purchaser is required prior to or at the Closing Date.

**Section 9.3 No Legal Proceedings.** No suit, action, or other proceeding by any unaffiliated third party shall be pending by or before any governmental authority seeking to restrain, prohibit, or declare illegal, or seeking substantial damages in connection with, the transactions contemplated by this Agreement.

**Section 9.4 Title Defects, Environmental Defects and Casualty Losses.** Without giving effect to the Aggregate Title Defect Deductible or the Aggregate Environmental Defect Deductible, the sum of (a) the Title Defect Amounts of all uncured Title Defects exceeding the Individual Title Defect Threshold, plus (b) all Remediation Amounts for uncured Environmental Defects exceeding the Individual Environmental Defect Threshold, plus (c) the amount of loss in value of the Assets resulting from all Casualty Losses, as determined in accordance with Section 4.13, minus the aggregate Title Benefit Amounts of all Title Benefits as determined pursuant to Section 4.7, shall be less than twenty-five percent (25%) of the Purchase Price.

**Section 9.5 Closing Certificate.** Purchaser shall have executed and delivered to Seller an officer's certificate, dated as of the Closing Date and substantially in the form of Exhibit G, certifying that the conditions set forth in Section 9.1 and Section 9.2 have been fulfilled and, if applicable, any exceptions to such conditions that have been waived by Seller.

**Section 9.6 Closing Deliverables.** Purchaser shall have delivered (or be ready, willing and able to deliver at Closing) to Seller the documents and other items required to be delivered by Purchaser at Closing.

## ARTICLE X CLOSING

**Section 10.1 Time and Place of Closing.** The consummation of the transactions contemplated by this Agreement (the "Closing") shall be held on April 26, 2021 (the "Scheduled Closing Date"), at Seller's offices at 22777 Springwoods Village Parkway, Spring, Texas 77389; provided that if all of the conditions to that Closing are not satisfied as of the Scheduled Closing Date, then Closing shall be held three (3) Business Days after all such conditions have been satisfied or waived, or such other date as the Parties may mutually agree in writing, but in no event later than May 11, 2021 (the "Longstop Date").

**Section 10.2 Calculation of Adjusted Purchase Price.** Not less than five (5) Business Days prior to the Closing, Seller shall prepare and submit to Purchaser for review a draft settlement

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statement (the "**Preliminary Settlement Statement**") that shall set forth (a) the Adjusted Purchase Price, reflecting each adjustment made in accordance with this Agreement as of the date of preparation of such Preliminary Settlement Statement and the itemized calculation (recognizing that Seller may elect to use reasonable good faith estimates in the Preliminary Settlement Statement) and (b) the designation of Seller's accounts for the wire transfers of funds at Closing. Within two (2) Business Days of receipt of the Preliminary Settlement Statement, Purchaser will deliver to Seller a written report containing all changes with the explanation therefor that Purchaser proposes to be made to the Preliminary Settlement Statement. The Preliminary Settlement Statement, as agreed upon by the Parties, will be used to adjust the Purchase Price at Closing; provided that if the Parties do not agree upon an adjustment set forth in the Preliminary Settlement Statement, then the amount of such adjustment used to adjust the Purchase Price at Closing shall be that amount set forth in the draft Preliminary Settlement Statement delivered by Seller to Purchaser pursuant to this Section 10.2. Final adjustments to the Purchase Price shall be made pursuant to Section 12.1 below.

**Section 10.3 Failure to Close.** If the conditions to Closing have been satisfied or waived on or before the Longstop Date, and either Party fails to close, the Party failing to close shall be deemed to have breached the obligations it has undertaken hereunder to perform at Closing, and shall be subject to the provisions of Article XV below.

**Section 10.4 Closing Obligations.** At the Closing:

- (a) Seller and Purchaser shall execute, acknowledge and deliver the Assignment and Royalty Free Lease in sufficient duplicate originals to allow recording in all appropriate counties;
- (b) Seller and Purchaser shall execute and deliver assignments, on appropriate forms, of state, federal, tribal and other Leases of governmental authorities included in the Assets in sufficient counterparts to facilitate filing with the applicable governmental authorities;
- (c) Seller and Purchaser shall acknowledge the Preliminary Settlement Statement;
- (d) Seller shall deliver to Purchaser a non-foreign entity affidavit in the form of Exhibit H;
- (e) Seller, if and as applicable, shall deliver all appropriate or required forms, applications, notices, permit transfers, declarations, to be filed with the appropriate governmental authorities having jurisdiction with respect to the transfer of operatorship to Purchaser of the Assets that are operated by Seller immediately prior to the Closing;
- (f) Seller and Purchaser shall execute, acknowledge and deliver transfer orders or letters in lieu thereof in customary form prepared by Seller directing all purchasers of production to make payment to Purchaser of proceeds attributable to production from the Assets from and after Closing;
- (g) Purchaser shall make the payment described in Section 3.4(b);
- (h) Purchaser shall furnish evidence that all requirements to own and/or operate the Assets, including bonds and permits, from any governmental authority having jurisdiction, or

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as required by any Existing Contract, have been satisfied;

(i) pursuant to Section 7.5, Purchaser will execute and deliver the Performance Bond; and

(j) Seller and Purchaser shall execute such other instruments and take such other actions as may be necessary to carry out their respective obligations under this Agreement.

#### ARTICLE XI POST-CLOSING OBLIGATIONS

**Section 11.1 Assumed Obligations.** Without limiting Purchaser's rights to indemnity under Section 11.3 (if applicable), if the Closing occurs, from and after Closing, Purchaser hereby assumes and agrees to fulfill, perform, pay and discharge all obligations and Losses, known or unknown, with respect to the Assets or the ownership, use or operation thereof, regardless of whether such obligations or Losses arose prior to, on or after the Effective Time, including obligations and Losses relating to the following (all of such obligations and Losses, the "Assumed Obligations"):

(a) the payment of owners of Working Interests, royalties, overriding royalties and other interests all revenues attributable thereto, including the Suspense Funds transferred to Purchaser in accordance with Section 12.2;

(b) fully performing all plugging, decommissioning and abandonment obligations related to the Assets (the "**Plugging and Abandonment Obligations**"), regardless of whether such obligations are attributable to the ownership or operation of the Assets prior to, on, or after the Effective Time, in a good and workmanlike manner and in compliance with all Laws, including:

(i) the necessary and proper plugging, replugging, and abandonment of all wells on the Assets, whether plugged and abandoned prior to, on, or after the Effective Time;

(ii) the necessary and proper removal, abandonment, decommissioning, and disposal of all structures, pipelines, facilities, equipment, abandoned property, and junk located on or comprising part of the Assets;

(iii) the necessary and proper capping and burying of all flow lines and pipelines associated with the Assets and located on or comprising part of the Assets; and



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- (iv) the necessary and proper restoration of the property, both surface and subsurface, as may be required by Laws or contract;
- (c) furnishing make-up gas according to the terms of applicable Existing Contracts, and to satisfy all other Imbalances, if any;
- (d) the environmental and physical condition of the Assets, whether such condition existed prior to, on or after the Effective Time, including Environmental Defects, if any, with respect to the Assets, whether or not asserted by Purchaser in accordance with this Agreement, including the clean-up, restoration and remediation of the Assets in accordance with applicable Law, including all Environmental Laws;
- (e) obligations or Losses under or imposed on the lessee, owner, or operator under the Leases, the Existing Contracts and applicable Laws; and
- (f) storing, handling, transporting and disposing of or discharging all materials, substances and wastes from the Assets (including produced water, drilling fluids, NORM, and other wastes), whether present prior to, on or after the Effective Time, in accordance with applicable Laws and contracts.

**Section 11.2 Purchaser's Indemnity.** Effective upon Closing, **REGARDLESS OF FAULT**, Purchaser shall protect, defend, indemnify and hold harmless the Seller Group from and against any and all Losses arising out of, attributable to, based upon or related to:

- (a) any breach of any representation or warranty made by Purchaser in Article VI of this Agreement, in the certificate delivered by Purchaser pursuant to Section 9.6, or any covenant or agreement of Purchaser contained in this Agreement; or
- (b) any of the Assumed Obligations.

**Section 11.3 Seller's Indemnity.** Effective upon Closing, **REGARDLESS OF FAULT**, Seller shall protect, defend, indemnify and hold harmless the Purchaser Group from and against any and all Losses arising out of, attributable to, based upon or related to:

- (a) any breach of any representation or warranty made by Seller in Article V of this Agreement, in the certificate delivered by Seller pursuant to Section 8.6; or any covenant or agreement of Seller contained in this Agreement;
- (b) the Excluded Assets;
- (c) Seller's failure to pay or properly account for any royalties, other burdens on production or revenues owed to working interest owners to the extent relating to the production of Hydrocarbons from the Assets prior to the Effective Time, other than Imbalances;
- (d) any personal injury or death attributable to Seller's or its Affiliates' operation of the Assets prior to the Effective Time, to the extent a claim relating thereto is asserted by third parties not Affiliated with Purchaser and for which Purchaser's indemnity in Section 7.4 does not apply;

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(c) the litigation and/or administrative proceedings set forth on Schedule 11.3(e);

(f) royalty, overriding royalty, working interests and other burdens on production of Hydrocarbons from the Assets held in suspense by Seller or its Affiliates as of Closing for which an adjustment to the Purchase Price is not made pursuant to this Agreement; or

(g) matters related to taxes accruing prior to the Effective Time and more fully set forth in Article XIII.

**Section 11.4 Regardless of Fault.** The phrase "REGARDLESS OF FAULT" means WITHOUT REGARD TO THE CAUSE OR CAUSES OF ANY CLAIM, INCLUDING WHETHER OR NOT A CLAIM IS CAUSED IN WHOLE OR IN PART BY:

(a) THE NEGLIGENCE (WHETHER SOLE, JOINT, CONCURRENT, COMPARATIVE, CONTRIBUTORY, ACTIVE, PASSIVE, GROSS OR OTHERWISE) WILLFUL MISCONDUCT, STRICT LIABILITY, OR OTHER FAULT OF ANY OF THE INDEMNIFIED PARTIES; AND/OR

(b) A PRE-EXISTING DEFECT, WHETHER PATENT OR LATENT, WITH RESPECT TO THE PROPERTY OF ANY OF THE PARTIES, THEIR AFFILIATES OR THEIR RESPECTIVE REPRESENTATIVES; AND/OR THE UNSEAWORTHINESS OF ANY VESSEL OR UNAIRWORTHINESS OF ANY AIRCRAFT OR MECHANICAL FAILURE OF ANY VEHICLE OF A PARTY, ITS AFFILIATES OR ANY OF THEIR RESPECTIVE REPRESENTATIVES, WHETHER CHARTERED, LEASED, OWNED, OR FURNISHED OR PROVIDED BY ANY OF THE PARTIES, THEIR AFFILIATES OR ANY OF THEIR RESPECTIVE REPRESENTATIVES.

**Section 11.5 Limitation on Liability.**

(a) Seller shall not have any liability for any indemnification under Section 11.3(a) for any individual Loss unless the amount of such Loss exceeds ONE MILLION DOLLARS (\$1,000,000.00) and (ii) until and unless the aggregate amount of all such Losses for which Claim Notices are delivered by Purchaser exceeds THREE MILLION FIVE HUNDRED THOUSAND DOLLARS (\$3,500,000.00) (the "Indemnity Deductible") and then only to the extent such Losses exceed the Indemnity Deductible.

(b) Notwithstanding anything to the contrary contained in this Agreement, Seller shall not be required to indemnify the Purchaser Group (i) under Section 11.3(a) for aggregate Losses in excess of twenty-five percent (25%) of the Purchase Price, and (ii) otherwise under the terms of this Agreement for aggregate Losses in excess of one hundred percent (100%) of the Adjusted Purchase Price.

**Section 11.6 Exclusive Remedy.** Notwithstanding anything to the contrary contained in this Agreement, except with respect to any breach by Purchaser of its obligations to maintain the Performance Bond from and after Closing (in which event, Seller shall have all remedies at law or in equity on account of such breach), from and after the Closing, Section 4.8(c), Section 7.4,

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Section 11.2, Section 11.3, Section 11.12 and Section 12.2 contain the Parties' exclusive remedy against each other with respect to the transactions contemplated hereby and the sale of the Assets, including breaches of the representations, warranties, covenants and agreements of the Parties contained in this Agreement or in any document delivered pursuant to this Agreement.

**Section 11.7 Indemnification Procedures.** All claims for indemnification under Section 4.8(c), Section 7.4, Section 11.2, Section 11.3, Section 11.12 and Section 12.2 shall be asserted and resolved as follows:

(a) For purposes of this Article XI, Section 4.8(c), Section 7.4 and Section 12.2, the term "Indemnifying Party" when used in connection with particular Losses shall mean the Party or Parties having an obligation to indemnify another Party or Parties with respect to such Losses pursuant to such sections, and the term "Indemnified Party" when used in connection with particular Losses shall mean the Party or Parties having the right to be indemnified with respect to such Losses by another Party or Parties pursuant to such sections.

(b) To make claim for indemnification under this Article XI, Section 4.8(c), Section 7.4 or Section 12.2, an Indemnified Party shall notify the Indemnifying Party of its claim under this Section 11.7, including the specific details of and specific basis under this Agreement for its claim (the "Claim Notice"). In the event that the claim for indemnification is based upon a claim by an unaffiliated third party against the Indemnified Party (a "Third Party Claim"), the Indemnified Party shall provide its Claim Notice promptly after the Indemnified Party has actual knowledge of the Third Party Claim and shall enclose a copy of all papers (if any) served with respect to the Third Party Claim; provided that the failure of any Indemnified Party to give notice of a Third Party Claim as provided in this Section 11.7 shall not relieve the Indemnifying Party of its indemnification obligations under this Agreement, except to the extent (and then only to the extent) such failure materially prejudices the Indemnifying Party's ability to defend against the Claim. In the event that the claim for indemnification is based upon an inaccuracy or breach of a representation, warranty, covenant or agreement, the Claim Notice shall specify the representation, warranty, covenant or agreement that was inaccurate or breached.

(c) In the case of a claim for indemnification based upon a Third Party Claim, the Indemnifying Party shall have thirty (30) days from its receipt of the Claim Notice to notify the Indemnified Party whether it admits or denies its liability to defend the Indemnified Party against such Third Party Claim at the sole cost and expense of the Indemnifying Party. The Indemnified Party is authorized, prior to and during such thirty (30) day period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Party and that is not prejudicial to the Indemnifying Party.

(d) If the Indemnifying Party admits its liability, it shall have the right and obligation to diligently defend, at its sole cost and expense, the Third Party Claim. The Indemnifying Party shall have full control of such defense and proceedings, including any compromise or settlement thereof unless the compromise or settlement includes the payment of any amount by (because of the Indemnity Deductible or otherwise), the performance of any obligation by or the limitation of any right or benefit of, the Indemnified Party, in which event such settlement or compromise shall not be effective without the consent of the Indemnified Party, which shall not be unreasonably withheld or delayed. If requested by the Indemnifying Party, the

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Indemnified Party agrees to cooperate in contesting any Third Party Claim which the Indemnifying Party elects to contest. The Indemnified Party may participate in, but not control, at its own expense, any defense or settlement of any Third Party Claim controlled by the Indemnifying Party pursuant to this Section 11.7. An Indemnifying Party shall not, without the written consent of the Indemnified Party, (i) settle any Third Party Claim or consent to the entry of any judgment with respect thereto which does not include an unconditional written release of the Indemnified Party from all liability in respect of such Third Party Claim or (ii) settle any Third Party Claim or consent to the entry of any judgment with respect thereto in any manner that may materially and adversely affect the Indemnified Party (other than as a result of money damages covered by the indemnity).

(e) If the Indemnifying Party does not admit its liability (which it will be deemed to have so done if it fails to timely respond) or admits its liability but fails to diligently prosecute or settle the Third Party Claim, then the Indemnified Party shall have the right to defend against the Third Party Claim at the sole cost and expense of the Indemnifying Party, with counsel of the Indemnified Party's choosing, subject to the right of the Indemnifying Party to admit its liability and assume the defense of the Claim at any time prior to settlement or final determination thereof. If the Indemnifying Party has not yet admitted its liability for a Third Party Claim, the Indemnified Party shall send written notice to the Indemnifying Party of any proposed settlement and the Indemnifying Party shall have the option for ten (10) days following receipt of such notice to (i) admit in writing its liability for the Third Party Claim and (ii) if liability is so admitted, reject, in its reasonable judgment, the proposed settlement.

(f) In the case of a claim for indemnification not based upon a Third Party Claim, the Indemnifying Party shall have thirty (30) days from its receipt of the Claim Notice to (i) cure the Losses complained of, (ii) admit its liability for such Loss or (iii) dispute the claim for such Losses. If the Indemnifying Party does not notify the Indemnified Party within such thirty (30) day period that it has cured the Losses or that it disputes the claim for such Losses, then the Indemnifying Party shall be deemed to be disputing the claim for such Losses.

#### Section 11.8 Survival.

(a) The (i) representations and warranties of Seller in Article V and in the certificate delivered at Closing by Seller pursuant to Section 8.6, and (ii) the covenants and agreements of Seller contained herein to be performed prior to Closing shall, in each case, survive the Closing for a period of twelve (12) months after the Closing Date. The representations, warranties, covenants and agreements of Purchaser contained herein shall survive without time limit.

(b) Subject to Section 11.8(a) and except as set forth in Section 11.8(c), the remainder of this Agreement shall survive the Closing without time limit. Representations, warranties, covenants and agreements shall be of no further force and effect after the date of their expiration; provided that there shall be no termination of any bona fide claim asserted pursuant to this Agreement with respect to such a representation, warranty, covenant or agreement prior to its expiration date.

(c) The indemnities in Section 11.2(a) and Section 11.3(a) shall terminate as of the termination date of each respective representation, warranty, covenant or agreement that is subject to indemnification, except, in each case, as to matters for which a specific written claim for



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indemnity has been delivered to the Indemnifying Party on or before such termination date. The indemnities in Section 11.3(c), Section 11.3(d), Section 11.3(e), Section 11.3(f) and Section 11.3(g) shall survive the Closing for a period of twelve (12) months after the Closing Date. The indemnities in Section 11.2(b) and Section 11.3(b) shall survive the Closing without time limit.

**Section 11.9 Waiver of Right to Rescission.** Seller and Purchaser acknowledge that, following the Closing, the payment of money, as limited by the terms of this Agreement, shall be adequate compensation for breach of any representation, warranty, covenant or agreement contained herein or for any other claim arising in connection with or with respect to the transactions contemplated by this Agreement. As the payment of money shall be adequate compensation, following the Closing, Purchaser and Seller waive any right to rescind this Agreement or any of the transactions contemplated hereby.

**Section 11.10 Non-Compensatory Damages.** No Indemnified Parties shall be entitled to recover from an Indemnifying Party or its Affiliates any indirect, special, incidental, consequential, punitive, exemplary, remote or speculative damages or damages for lost profits of any kind arising under or in connection with this Agreement or the transactions contemplated hereby, except to the extent any such Party suffers such damages to a Third Party, which damages (including costs of defense and reasonable attorneys' fees incurred in connection with defending against such damages) shall not be excluded by this provision as to recovery hereunder.

**Section 11.11 Insurance.** The amount of any Losses for which any of the Purchaser Group or Seller Group is entitled to indemnification under this Agreement or in connection with or with respect to the transactions contemplated by this Agreement shall be reduced by any corresponding insurance proceeds actually received by any such indemnified Party under any insurance arrangements.

**Section 11.12 ExxonMobil Insurance.** Seller and Purchaser acknowledge that ExxonMobil Corporation maintains a worldwide program of property and liability insurance coverage for itself and its affiliates, including Seller. This program has been designed to achieve a co-coordinated risk management package for the entire ExxonMobil corporate group and includes self-insurance. All of the insurance policies through which the worldwide program of coverage is presently or has previously been provided by or to ExxonMobil, its predecessors or Affiliates are herein referred to collectively as the "ExxonMobil Policies." It is understood and agreed by Purchaser that from and after the Closing (a) no insurance coverage shall be provided to Purchaser under the ExxonMobil Policies, and (b) no claims regarding any matter whatsoever, whether or not arising from events occurring prior to the Closing, shall be made by Purchaser or its Affiliates against or with respect to any of the ExxonMobil Policies regardless of their date of issuance. Purchaser hereby indemnifies and defends the Seller Group against, and holds them harmless from, any claim made after Closing against any of the ExxonMobil Policies by Purchaser or its Affiliates or any Person claiming to be subrogated to Purchaser's or its Affiliates' rights, including all costs and expenses (including attorneys' fees) related thereto. Such indemnity shall cover any claim by an insurer for reinsurance, retrospective premium payments or prospective premium increases attributable to any such claim.

**Section 11.13 Access to Seller's Financial and Accounting Information.** Within two (2) years of Closing, and at Purchaser's expense, Seller shall grant to a mutually agreed accounting firm access to Seller's financial and accounting information directly relating to the Assets as needed for the preparation of certain financial statements that may be required of Purchaser pursuant to the rules and

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regulations of the Securities and Exchange Commission ("SEC") including SEC Regulation S-X and Rule 3-05. Such access shall be limited to information for the calendar years 2019 and 2020, and first quarter of 2021, that exists in Seller's offices, as may reasonably be required to prepare audited financial statements reflecting gross revenues and direct lease operating expenses related to the Assets. Purchaser shall provide at least sixty (60) Business Days prior notice to Seller before the accounting firm shall commence such review. Such review will only be carried out one time. Furthermore, unless otherwise agreed by Seller, the accounting firm shall not disclose information to Purchaser that is proprietary to Seller or its Affiliates, including gas and liquids sales prices.

## ARTICLE XII CERTAIN ADDITIONAL AGREEMENTS

### Section 12.1 Post-Closing Settlement Statement.

(a) As soon as reasonably practicable after the Closing Date, but in no event longer than one hundred twenty (120) days after the Closing Date (the "Final Settlement Date"), Seller shall prepare, in accordance with this Agreement, and deliver to Purchaser, a final statement (the "Final Settlement Statement") setting forth each adjustment to the Purchase Price in accordance with Section 3.2 and Section 3.3. The Final Settlement Statement also will include any adjustments necessary because Seller chose to attempt to cure a Title Defect under Section 4.3 of this Agreement. As soon as reasonably practicable, but in any event within thirty (30) days after receipt of the Final Settlement Statement, Purchaser shall return to Seller a written report containing any proposed changes to the Final Settlement Statement and an explanation of any such changes and the reasons therefor (the "Dispute Notice"). Purchaser's failure to deliver to Seller a Dispute Notice detailing proposed changes to the Final Settlement Statement by such date shall be deemed to be an acceptance by Purchaser of the Final Settlement Statement delivered by Seller, and Seller's determinations with respect to all such adjustments in the Final Settlement Statement that are not addressed in the Dispute Notice shall prevail. The Parties shall undertake to agree on the Adjusted Purchase Price no later than one hundred eighty (180) days after the Closing Date (the "Target Settlement Date"). If the final Purchase Price set forth in the Final Settlement Statement is mutually agreed upon by Seller and Purchaser prior to the Target Settlement Date or is deemed agreed pursuant to the foregoing (or determined by the Accounting Arbitrator pursuant to Section 12.1(b)), the Final Settlement Statement and such final Adjusted Purchase Price (the "Final Price"), shall be final and binding on the Parties. Any difference in the Adjusted Purchase Price as paid at Closing pursuant to the Preliminary Settlement Statement and the Final Price shall be paid by the owing Party on or before the date that is ten (10) days following agreement or deemed agreement (or determination by the Accounting Arbitrator, as applicable) (such date, the "Final Payment Date") to the owed Party. All amounts paid or transferred pursuant to this Section 12.1(a) shall be delivered in United States currency by wire transfer of immediately available funds to the account specified in writing by the relevant Party.

(b) If Seller and Purchaser cannot reach agreement on the Final Price by the Target Settlement Date, either Party may refer the remaining issues in dispute to the Agreed Accounting Firm. If such issues in dispute are submitted to the Agreed Accounting Firm for resolution, Seller and Purchaser will each enter into a customary engagement letter with the Agreed Accounting Firm at the time the issues in dispute are submitted to the Agreed Accounting Firm. Within ten (10) days of the appointment of the Agreed Accounting Firm, each of Seller and Purchaser shall present the Agreed Accounting Firm with its position on the issues in dispute with respect to the Final Price, and all other supporting information that it deems relevant, with a copy

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to the other Party. The Agreed Accounting Firm shall also be provided with a copy of this Agreement by Seller. Within forty five (45) days after receipt of such materials, the Agreed Accounting Firm shall make its determination by selecting the position of either Seller or Purchaser for each of the issues presented to the Agreed Accounting Firm, which determination shall be final and binding upon all Parties and, absent manifest error, without right of appeal. In making its determination, the Agreed Accounting Firm shall be bound by the standards and rules set forth in Article IV (if applicable) and this Section 12.1 with regard to valuations. The Agreed Accounting Firm may not award damages, interest or penalties to either Party with respect to any matter. Seller and Purchaser shall each bear its own legal fees and other costs of presenting its case. Each Party shall bear one-half of the costs and expenses of the Agreed Accounting Firm.

**Section 12.2 Suspended Funds.** Seller will provide Schedule 5.11, a listing showing all estimated net proceeds from production attributable to the Assets which are held in suspense by Seller as of the Closing Date (the "Suspense Funds") because of lack of identity or address of owners, title defects, change of ownership, netting, over/under distributions or similar reasons. As soon as reasonably practicable after the Closing, but in no event longer than ninety (90) days after the Closing Date, Seller shall provide Purchaser an updated Schedule 5.11, and shall credit Purchaser an amount equal to the Suspense Funds in the Final Settlement Statement. Purchaser shall be responsible for proper distribution of all the Suspense Funds to the Persons lawfully entitled to them, and effective upon Closing, Purchaser hereby protects, defends, indemnifies and holds Seller harmless against any and all Losses associated with claims against the Suspense Funds.

**Section 12.3 Receipts and Credits.** Subject to the following sentence, after the Parties' agreement (or deemed agreement) upon the Final Settlement Statement, then, to the extent not accounted for in the Final Settlement Statement, if (i) any Party receives monies belonging to the other, including proceeds of production, then such amount shall, within five (5) Business Days after the end of the month in which such amounts were received, be paid over to the proper Party, (ii) any Party pays monies for Property Expenses which are the obligation of the other Party hereto, then such other Party shall, within five (5) Business Days after the end of the month in which the applicable invoice and proof of payment of such invoice were received, reimburse the Party which paid such Property Expenses, (iii) a Party receives an invoice of an expense or obligation which is owed by the other Party, such Party receiving the invoice shall promptly forward such invoice to the Party obligated to pay the same, and (iv) an invoice or other evidence of an obligation is received by a Party, which is partially an obligation of both Seller and Purchaser, then the Parties shall consult with each other, and each shall promptly pay its portion of such obligation to the obligee. Notwithstanding anything herein to the contrary, (a) from and after the first anniversary of the Closing Date, Seller shall have no liabilities or obligations with respect to pre-Effective Time Property Expenses, and (b) the provisions of this Section 12.3 shall not be subject to the provisions of Sections 11.5 and 11.7. Each of Seller and Purchaser shall be permitted to offset any Property Expenses owed by such Party to the other Party pursuant to this Section 12.3 against amounts owing by the second Party to the first Party pursuant to this Section 12.3, but not otherwise.

#### **Section 12.4 Records; Retention.**

(a) Within sixty (60) days after Closing, Seller will deliver to Purchaser, at Purchaser's cost and request, copies of files, records, and data relating to the Assets (the "Records") including title records (including abstracts of title, title opinions, title reports, and title



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curative documents), the Existing Contracts, correspondence and all related matters in the possession of Seller (but excluding corporate, financial, tax, and general accounting records, any document subject to the attorney-client or other privilege, and any document, data, or other information where disclosure is restricted by agreement with a third party). Purchaser must advise Seller before Closing which such files, records and data it wants copied.

(b) Purchaser, for a period of seven (7) years following the Closing, will (a) retain the Records, (b) provide Seller, its Affiliates and its and their officers, employees and representatives with access to the Records (to the extent that Seller has not retained the original or a copy) during normal business hours for review and copying at Seller's expense, and (c) provide Seller, its Affiliates and its and their officers, employees and representatives with access, during normal business hours, to materials received or produced after the Closing relating to any indemnity claim made under Section 11.3 for review and copying at Seller's expense.

**Section 12.5 Recording.** As soon as practicable after Closing, Purchaser, at its sole cost, shall record the Assignment in the appropriate counties and provide Seller with copies of the recorded Assignment.

**Section 12.6 Filing for Approvals.**

(a) Purchaser, at its sole cost, shall no later than thirty (30) days after Closing:

(i) file for approval with any governmental authorities having jurisdiction (including state, federal, tribal, and local) the transfer documents required to effectuate the transfer of the Assets;

(ii) execute, acknowledge (if necessary), and exchange, as applicable, any applications necessary to transfer to Purchaser any transferable Permits to which the Assets are subject, and which Seller has agreed to transfer under this Agreement;

(iii) file all appropriate forms, declarations, and bonds (or other authorized forms of security) with all applicable governmental authorities and third parties relative to Purchaser's assumption of operations or the transfer of the Assets; and

(iv) prepare and execute appropriate change of operator notices and third-party ballots required under applicable operating agreements.

(b) After Closing, the Parties further agree to take all other actions required of it by governmental authorities having jurisdiction to obtain all requisite regulatory approval with respect to this transaction, and to use their commercially reasonable efforts to obtain unconditional approval by such authorities of any transfer documents requiring governmental approval in order for Purchaser to be recognized as owner of the Assets. Each Party agrees to provide the other Party with approved copies of the documents contemplated by this Section 12.6, as soon as they are available.

**Section 12.7 Further Cooperation.** After Closing, Seller and Purchaser agree to take such further actions and to execute, acknowledge and deliver all such further documents that are reasonably necessary or useful in carrying out the purposes of this Agreement or of any document delivered pursuant to this Agreement.

**Section 12.8 CO2 Purchase Obligation.**



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(a) From and after the Closing until the fiftieth (50<sup>th</sup>) anniversary thereof, in the event Purchaser (or its Affiliates) elects to conduct carbon dioxide flooding involving the Leases or Wells, in each such instance, Purchaser shall provide Seller with sixty (60) days' advance notice of any such tertiary recovery project. In such event, Seller (or its Affiliates) shall have the right (but not the obligation) to offer, at then current market rates, such quantity of carbon dioxide to Purchaser as Seller may determine, and, subject to clause (b) below, Purchaser shall be required to purchase such carbon dioxide offered by Seller. If, following the Closing, Purchaser assigns its interest in a Lease or the Wells to a third party, the assignment must require that the assignee assume the assigning party's obligations with respect to this Section 12.8.

(b) If Purchaser receives a bona fide offer from a third party to purchase the same quantity of carbon dioxide as offered by Seller, but for a lower price, Purchaser shall notify Seller of the price and term of such transaction and Seller shall, within 30 days of receipt of the notice, notify Purchaser whether it elects to match such price and term. If Seller elects to match, Purchaser shall be obligated to purchase such quantity of carbon dioxide from Seller. If Seller elects not to match or fails to give notice of its intention within the 30-day period, Purchaser shall be free to purchase such quantity of carbon dioxide from the third party at a price not more than stated in the notice and for not longer than such term as stated in the notice (and for avoidance of doubt, the terms of this clause (b) shall again apply to any potential renewal following expiration of such term).

### ARTICLE XIII TAXES

**Section 13.1 Apportionment of Ad Valorem and Property Taxes.** All Property Taxes with respect to the tax period in which the Effective Time occurs shall be apportioned as of the Effective Time between Seller and Purchaser. The Parties will make final settlement of all Property Taxes by estimating the Property Taxes to be due for the tax period in which the Effective Time occurs based on the Property Taxes assessed and paid for the immediately prior tax period. Such settlement of taxes shall be part of the Final Settlement Statement between the Parties. If Property Taxes have not been paid before Closing, Purchaser shall pay the Property Taxes and shall be credited for Seller's portion of the Property Taxes under Section 3.3(g). If Property Taxes have been paid before Closing, Seller shall be credited for Purchaser's portion of the Property Taxes under Section 3.2(c). Purchaser shall be responsible for all subsequent Property Taxes and interest that are applied to the Assets for the periods or portions thereof after the Effective Time.

**Section 13.2 Sales Taxes.** The Purchase Price is exclusive of any sales taxes or other similar taxes in connection with the sale of the Assets. If any sales or other similar taxes are assessed, Purchaser shall be solely responsible for the payment of such taxes. Purchaser shall be responsible for any applicable conveyance, transfer and recording fees, and real estate transfer stamps or taxes imposed on the transfer of the Assets pursuant to this Agreement. If Seller is required to pay any such taxes, then Purchaser will reimburse Seller for such amounts.

**Section 13.3 Severance and Production Taxes.** Seller shall bear and pay all Severance Taxes, to the extent attributable to production from the Assets before the Effective Time. Purchaser shall bear and pay all such Severance Taxes on production from the Assets on and after the Effective Time. Seller shall withhold and pay on behalf of Purchaser all such Severance Taxes on production from the Assets between the Effective Time and the Closing Date, if the Closing Date follows the Effective Time, and the amount of any such payment shall be reimbursed to Seller

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as a Closing adjustment to the Purchase Price pursuant to Section 12.1. If either Party pays Severance taxes owed by the other under this Agreement, upon receipt of evidence of payment the nonpaying Party will reimburse the paying Party promptly for its proportionate share of such taxes.

**Section 13.4 Cooperation.** Each Party shall provide the other Party with reasonable information which may be required by the other Party for the purpose of preparing tax returns and responding to any audit by any taxing jurisdiction. Each Party shall cooperate with all reasonable requests of the other Party made in connection with contesting the imposition of taxes. Notwithstanding anything to the contrary in this Agreement, neither Party shall be required at any time to disclose to the other Party any tax returns or other confidential tax information.

**Section 13.5 Like-Kind Exchange.** Each Party consents to the other Party's assignment of its rights and obligations under this Agreement to its affiliate or its Qualified Intermediary (as that term is defined in Section 1.1031(k)-l(g)(4)(v) of the Treasury Regulations) and/or to its Qualified Exchange Accommodation Titleholder (as that term is defined in Rev. Proc. 2007-37 issued effective September 15, 2000) in connection with the effectuation of a Like-Kind Exchange Transaction. However, Seller and Purchaser acknowledge and agree that any assignment of this Agreement to its affiliate or a Qualified Intermediary or Qualified Exchange Accommodation Titleholder does not release either Party from any of its respective liabilities and obligations to the other Party under this Agreement. If requested by the other Party, each Party agrees to cooperate with the other Party (to the extent reasonable) to attempt to structure the transaction as a Like-Kind Exchange Transaction. If a Like-Kind Exchange Transaction occurs, the Parties recognize that IRS Form 8824, Like-Kind Exchanges, will be required to be filed, and each Party consents to the filing of such Form and will fully cooperate, to the extent necessary, with the other Party in filing such form.

**Section 13.6 IRS Form 8594.** If the Parties mutually agree that a filing of IRS Form 8594 is required, then the Parties will confer and cooperate in the preparation and filing of their respective forms to reflect consistent reporting of the agreed upon allocation of the value of the Assets.

#### ARTICLE XIV DISCLAIMERS AND WAIVERS

**Section 14.1 Condition of the Assets. PURCHASER ACKNOWLEDGES AND AGREES THAT, SUBJECT TO THE PROVISIONS OF ARTICLE IV AND PURCHASER'S RIGHTS UPON A BREACH BY SELLER OF ANY OF ITS REPRESENTATIONS OR WARRANTIES CONTAINED IN ARTICLE V, PURCHASER SHALL ACQUIRE THE ASSETS (INCLUDING ASSETS FOR WHICH A DEFECT NOTICE IS GIVEN UNDER ARTICLE IV) IN AN "AS IS, WHERE IS" CONDITION AND SHALL ASSUME ALL RISKS THAT THE ASSETS MAY CONTAIN WASTE MATERIALS (WHETHER TOXIC, HAZARDOUS, EXTREMELY HAZARDOUS OR OTHERWISE) OR OTHER ADVERSE PHYSICAL CONDITIONS, INCLUDING THE PRESENCE OF UNKNOWN ABANDONED WELLS, PUMPS, PITTS, PIPELINES OR OTHER WASTE OR SPILL SITES WHICH MAY NOT HAVE BEEN REVEALED BY PURCHASER'S ENVIRONMENTAL ASSESSMENT. UPON THE OCCURRENCE OF CLOSING, BUT SUBJECT TO PURCHASER'S RIGHTS UPON A BREACH BY SELLER OF ANY OF ITS REPRESENTATIONS OR WARRANTIES CONTAINED IN ARTICLE V, IF APPLICABLE, ALL RESPONSIBILITY AND LIABILITY RELATED TO SUCH**

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CONDITIONS, WHETHER KNOWN OR UNKNOWN, FIXED OR CONTINGENT, SHALL BE TRANSFERRED FROM SELLER TO PURCHASER WITHOUT RECOURSE AGAINST SELLER. WITHOUT LIMITING THE FOREGOING BUT SUBJECT TO PURCHASER'S RIGHTS UPON A BREACH BY SELLER OF ANY OF ITS REPRESENTATIONS OR WARRANTIES CONTAINED IN ARTICLE V, IF APPLICABLE, EFFECTIVE AS OF CLOSING, PURCHASER WAIVES ITS RIGHT TO RECOVER FROM SELLER AND FOREVER RELEASES AND DISCHARGES THE SELLER GROUP FROM ANY AND ALL LOSSES, WHETHER DIRECT OR INDIRECT, KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, THAT MAY ARISE OR MAY HAVE ARISEN PRIOR TO, ON OR AFTER THE EFFECTIVE TIME ON ACCOUNT OF OR IN ANY WAY CONNECTED WITH THE ENVIRONMENTAL OR OTHER PHYSICAL CONDITION OF THE ASSETS OR ANY VIOLATION BY SELLER, PURCHASER OR ANY OTHER PARTY OF ANY APPLICABLE LEASE, CONTRACT OR OTHER INSTRUMENT (BUT ONLY TO THE EXTENT SUCH RELATES TO THE ENVIRONMENTAL OR PHYSICAL CONDITION OF THE PROPERTY) OR OF ANY APPLICABLE EXISTING OR FUTURE ENVIRONMENTAL LAW, REGULATION, ORDER OR OTHER DIRECTIVE OF ANY GOVERNMENTAL AUTHORITY, HAVING JURISDICTION APPLICABLE THERETO, INCLUDING WITHOUT LIMITATION, ALL ENVIRONMENTAL LAWS. PURCHASER IS AWARE THAT THE ASSETS HAVE BEEN USED FOR EXPLORATION, DEVELOPMENT AND PRODUCTION OF OIL AND GAS AND THAT THERE MAY BE PETROLEUM, PRODUCED WATER, WASTES OR OTHER MATERIALS LOCATED ON OR UNDER THE LANDS COVERED BY THE LEASES (OR LANDS POOLED OR ASSOCIATED THEREWITH). EQUIPMENT AND SITES INCLUDED IN THE ASSETS MAY CONTAIN ASBESTOS, HAZARDOUS SUBSTANCES OR NORM. NORM MAY AFFIX OR ATTACH ITSELF TO THE INSIDE OF WELLS, MATERIALS AND EQUIPMENT AS SCALE, OR IN OTHER FORMS. THE WELLS, MATERIALS AND EQUIPMENT LOCATED ON THE LEASES OR LANDS POOLED OR ASSOCIATED THEREWITH MAY CONTAIN NORM AND OTHER WASTES OR HAZARDOUS SUBSTANCES, AND NORM-CONTAINING MATERIAL AND OTHER WASTES MAY HAVE BEEN BURIED, COME IN CONTACT WITH THE SOIL, OR OTHERWISE BEEN DISPOSED OF ON OR UNDER THE LANDS COVERED BY THE LEASES OR LANDS POOLED OR ASSOCIATED THEREWITH. SPECIAL PROCEDURES MAY BE REQUIRED FOR THE REMEDIATION, REMOVAL, TRANSPORTATION OR DISPOSAL OF WASTES, ASBESTOS, HAZARDOUS SUBSTANCES AND NORM FROM THE ASSETS.

Section 14.2 Other Disclaimers by Seller. EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED FOR IN ARTICLE V OF THIS AGREEMENT, PURCHASER ACKNOWLEDGES AND AGREES THAT SELLER EXPRESSLY DISCLAIMS AND NEGATES ANY REPRESENTATION OR WARRANTY, EXPRESS, STATUTORY OR IMPLIED, AS TO (A) TITLE TO ANY OF THE ASSETS, (B) THE CONTENTS, CHARACTER OR NATURE OF ANY REPORT OF ANY PETROLEUM ENGINEERING CONSULTANT, OR ANY ENGINEERING, GEOLOGICAL OR SEISMIC DATA OR INTERPRETATION, RELATING TO THE ASSETS, ( C) THE QUANTITY, QUALITY OR RECOVERABILITY OF HYDROCARBONS IN OR FROM THE ASSETS, (D) ANY ESTIMATES OF THE VALUE OF THE ASSETS OR FUTURE REVENUES GENERATED BY THE ASSETS, (E) THE ABILITY TO PRODUCE HYDROCARBONS FROM THE ASSETS, (F) THE MAINTENANCE, REPAIR, CONDITION, QUALITY, SUITABILITY, DESIGN OR MARKETABILITY OF THE



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ASSETS, (G) THE CONTENT, CHARACTER OR NATURE OF ANY INFORMATION MEMORANDUM, REPORTS, BROCHURES, CHARTS OR STATEMENTS PREPARED BY SELLER OR THIRD PARTIES WITH RESPECT TO THE ASSETS, (H) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE TO PURCHASER OR ITS AFFILIATES, OR ITS OR THEIR EMPLOYEES, AGENTS, CONSULTANTS, REPRESENTATIVES OR ADVISORS IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO AND (I) ANY IMPLIED OR EXPRESS WARRANTY OF FREEDOM FROM PATENT OR TRADEMARK INFRINGEMENT. EXCEPT AS AND TO THE LIMITED EXTENT EXPRESSLY REPRESENTED OTHERWISE IN ARTICLE V OF THIS AGREEMENT, SELLER FURTHER DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS, STATUTORY OR IMPLIED, OF MERCHANTABILITY, FREEDOM FROM LATENT VICIES OR DEFECTS, FITNESS FOR A PARTICULAR PURPOSE OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS OF ANY OF THE ASSETS, RIGHTS OF A PURCHASER UNDER APPROPRIATE STATUTES TO CLAIM DIMINUTION OF CONSIDERATION OR RETURN OF THE PURCHASE PRICE, OR RIGHTS OF A PURCHASER UNDER DECEPTIVE TRADE PRACTICE STATUTES, CONSUMER PROTECTION STATUTES OR OTHER SIMILAR STATUTES, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE PARTIES THAT PURCHASER SHALL BE DEEMED TO BE OBTAINING THE ASSETS IN THEIR PRESENT STATUS, CONDITION AND STATE OF REPAIR, "AS IS" AND "WHERE IS" WITH ALL FAULTS OR DEFECTS (KNOWN OR UNKNOWN, LATENT, DISCOVERABLE OR UNDISCOVERABLE), AND THAT PURCHASER HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS PURCHASER DEEMS APPROPRIATE.

#### ARTICLE XV TERMINATION

**Section 15.1 Right of Termination.** This Agreement and the transactions contemplated herein may be terminated at any time prior to the Closing:

- (a) by the mutual written agreement of the Parties;
- (b) by delivery of written notice from Purchaser to Seller if any of the conditions set forth in Article VIII (other than the conditions set forth in Section 8.3, Section 8.4 and Section 8.5) have not been satisfied by Seller (or waived by Purchaser) by the Longstop Date;
- (c) by delivery of written notice from Seller to Purchaser if any of the conditions set forth in Article IX (other than the conditions set forth in Section 9.3, Section 9.4 and Section 9.5) have not been satisfied by Seller (or waived by Purchaser) by the Longstop Date;
- (d) by either Party delivering written notice to the other Party if any of the conditions set forth in Section 8.3, Section 8.4, Section 8.5, Section 9.3, Section 9.4 or Section 9.5 are not satisfied or waived by the applicable Party on or before the Longstop Date; and
- (e) by either Party at any time during which (i) the conditions set forth in Articles VIII and IX (other than those conditions that by their terms are to be satisfied at Closing) have been satisfied or waived in accordance with this Agreement, (ii) such Party has indicated in writing to the other Party that it is ready, willing and able to consummate the Closing, and (iii) the other Party



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shall have failed to consummate the Closing by the close of business on the third (3rd) Business Day following the other Party's receipt of such written notification;

Provided however, that no Party shall have the right to terminate this Agreement pursuant to clause (b), (c), (d) or (e) above if such Party is at such time in material breach of any provision of this Agreement.

**Section 15.2 Effect of Termination.** If this Agreement is terminated pursuant to any provision of Section 15.1, then, except as provided in this Section 15.2 (and except for the provisions of Section 4.2(a), Section 7.4, Section 11.11, Section 11.12, Article XIV, this Article XV, and Article XVII), this Agreement shall forthwith become void and of no further force or effect and the Parties shall have no liability or obligation hereunder.

(a) If Seller has the right to terminate this Agreement pursuant to Section 15.1(c) because of a Willful Breach by Purchaser of this Agreement, or Section 15.1(e) above, Seller shall be entitled to (1) terminate this Agreement pursuant to Section 15.1 and retain the Deposit as liquidated damages, and not as a penalty, for such termination, free and clear of any claims thereon by Purchaser, or (2) seek the specific performance of Purchaser hereunder. The Parties agree that, should Seller elect the option under subpart (1) above, the foregoing described liquidated damages are reasonable considering all of the circumstances existing as of the date of the execution of this Agreement and constitute the Parties' good faith estimate of the actual damages reasonably expected to result from such termination of this Agreement by Seller.

(b) If Purchaser has the right to terminate this Agreement pursuant to Section 15.1(b) because of a Willful Breach by Seller of this Agreement, or Section 15.1(e) above, Purchaser shall be entitled to (1) terminate this Agreement pursuant to Section 15.1 and receive the Deposit from Seller, and (2) seek to recover damages from Seller up to but not exceeding the amount of the Deposit. If Purchaser is entitled to the return of the Deposit pursuant to this Section 15.2(b), Seller shall return the Deposit to Purchaser within five (5) Business Days of the date this Agreement is terminated.

(c) If this Agreement is terminated for any reason other than as set forth in Section 15.2(a) or Section 15.2(b), then the Parties shall have no liability or obligation hereunder as a result of such termination, and Seller shall, within five (5) Business Days of the date this Agreement is terminated, return the Deposit to Purchaser free and clear of any claims thereon by Seller.

(d) Subject to the foregoing, upon the termination of this Agreement neither Party shall have any other liability or obligation hereunder and following any termination of this Agreement, Seller shall be free to all the rights and benefits associated with the ownership of the Assets, including the right to sell the Assets at Seller's discretion, without any claim by Purchaser with respect thereto.

**Section 15.3 Return of Documentation and Confidentiality.** Upon any termination of this Agreement, Purchaser shall return to Seller all title, engineering, geological and geophysical data, environmental assessments and/or reports, maps, documents and other information furnished by Seller to Purchaser or prepared by or on behalf of Purchaser in connection with its due diligence investigation of the Assets and an officer of Purchaser shall certify same to Seller in writing.

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## ARTICLE XVI EMPLOYEES

**Section 16.1 Employees.** Within five (5) days of the execution of this Agreement, Seller shall provide to Purchaser a list (the "Employee List") of all in scope employees of Seller directly engaged in the operation of the Assets (collectively, the "Employees"). The Employee List shall include for each Employee the current job title, work location, email, service date or hire date (if different) and leave status (excluding nature and expected duration of leave). Seller shall update the Employee List as necessary at any time prior to ten (10) days before the Closing to reflect any and all employment changes. Purchaser shall extend offers of employment to each of the Employees, conditioned on consummation of the Closing, no later than [ten (10) days within execution of this agreement]. Purchaser shall provide Seller with an update on job acceptances and declines at least five (5) Business Days before Closing. Seller will inform the Employees that their employment with Seller will terminate upon Closing, whether or not they accept the offer of employment from Purchaser.

**Section 16.2 Retirement Eligible Subject Employees.** Notwithstanding any language in this Agreement to the contrary, the Employees listed in Part B of the Employee List are within three years of retirement eligibility under Seller's benefit plans ("Near Retirement Eligible Employees"). Purchaser shall make an offer of employment to all Near Retirement Eligible Employees, which offer will include initial salary or wages that will be comparable to such Employee's salary or wages immediately prior to the Closing. For any Near Retirement Eligible Employees who accept an employment offer from Purchaser, Purchaser shall maintain the employment (other than for prohibited conduct as determined under Purchaser's written personnel policies, a voluntary resignation, or death) of any such Near Retirement Eligible Employees at least until each such Near Retirement Eligible Employee meets the eligibility requirements of Seller's benefit plans (at least 55 years old with at least 15 years of service with Seller and its affiliates and Purchaser and its affiliates).

**Section 16.3 Subject Employees Hired by Purchaser.** In connection with an Employee who accepts Purchaser's offer of employment, Purchaser covenants that the initial salary or wages of any such Employee will be comparable to such Employees' the salary or wages immediately prior to the Closing Date, subject to the terms and conditions pertaining to Near Retirement Eligible Employees set forth in Section 16.2. Purchaser will not reduce the salary or wages during the six (6) month period after such Employee commences employment with Purchaser. Purchaser agrees to recognize and grant credit for service with Seller for benefit programs (other than accruals under a defined benefit retirement plan), including vacation accrual under Purchaser's vacation program. In addition, if the Purchaser separates any Employee during the twelve-month period after the Closing Date (other than for prohibited conduct as determined under Purchaser's written personnel policies, a voluntary resignation, or death), they will provide the Employee with a severance payment equal to or greater than the Seller's severance program would have provided the Employee.

**Section 16.4 No Solicitation.** For any Employee that elects not to accept the employment offer from Purchaser, then Purchaser (or any of its affiliates), for a period of six (6) months after the Closing Date, shall not employ or make an offer of employment to any such Employee.

**Section 16.5 No Guaranteed Employment.** No provision of this Article XVI shall be construed as a guarantee of continued employment of any Employee and this Agreement shall not

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be construed so as to prohibit the Purchaser or any of its Affiliates from having the right to terminate the employment of any Employee, provided, that any such termination is effected in accordance with applicable Law.

**Section 16.6 No Third Party Beneficiaries.** The provisions of this Article XVI are for the sole benefit of the Parties hereto and nothing herein, express or implied, is intended or shall be construed to confer upon or give to any Person (including any Employee), other than the Parties to this Agreement and their respective successors and permitted assigns, any legal or equitable or other rights (including any third-party beneficiary rights) or remedies under or by reason of any provision of this Article XVI. Nothing contained herein, express or implied: (a) shall be construed to establish, amend or modify any benefit plan, program, agreement or arrangement (including any benefit plan of the Purchaser); (b) shall alter or limit the Purchaser's ability to amend, modify or terminate any benefit plan, program, agreement or arrangement (including any benefit plan of the Purchaser) subject to compliance with this Article XVI; or (c) is intended to confer upon any Employee any right to employment or continued employment for any period of time by reason of this Agreement, or any right to a particular term or condition of employment.

#### ARTICLE XVII MISCELLANEOUS

**Section 17.1 Entire Agreement.** This Agreement, including all Schedules and Exhibits attached hereto, constitutes the entire agreement between the Parties as to the subject matter of this Agreement and supersedes all prior agreements, understandings, negotiations and discussions of the Parties, whether oral or written. No supplement, amendment, alteration, modification or waiver of this Agreement shall be binding unless executed in writing by the Parties.

**Section 17.2 References and Rules of Construction.** All references in this Agreement to Exhibits, Schedules, Articles, Appendices, Sections and other subdivisions refer to the corresponding Exhibits, Schedules, Articles, Appendices, Sections and other subdivisions of or to this Agreement unless expressly provided otherwise. Titles appearing at the beginning of any such subdivisions are for convenience only and shall be disregarded in construing the language hereof. The words "this Agreement," "herein," "hereby," "hereunder" and "hereof," and words of similar import, refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. Pronouns in masculine, feminine, and neuter genders shall be construed to include any other gender, and words in the singular form shall be construed to include the plural and vice versa, unless the context otherwise requires. Derivatives and other forms of the terms defined in this Agreement shall have meanings consistent with the definitions herein provided. The term "including" (or "included") shall be deemed to be followed by the phrase "but not limited to." Unless otherwise expressly provided herein, any reference herein to a "day" shall refer to a calendar day. All references to "\$" or "dollars" shall be deemed references to United States dollars. The words "shall" and "will" are used interchangeably throughout this Agreement and shall accordingly be given the same meaning, regardless of which word is used.

**Section 17.3 Assignment.** This Agreement may not be assigned by Purchaser without the prior written consent of Seller. In the event that Seller consents to any such assignment, such assignment shall not relieve Purchaser of any of its obligations and responsibilities hereunder. Any assignment or other transfer by Purchaser or its successors and assigns of any of the Assets shall

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not relieve Purchaser or its successors or assigns of any of their obligations (including indemnity obligations) hereunder, as to the Assets so assigned or transferred.

**Section 17.4 Waiver.** No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

**Section 17.5 Conflict of Law Jurisdiction, Venue.** THIS AGREEMENT AND THE LEGAL RELATIONS AMONG SELLER AND PURCHASER SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, EXCLUDING ANY CONFLICTS OF LAW RULE OR PRINCIPLE THAT WOULD REQUIRE THE APPLICATION OF ANY OTHER LAW. EACH OF SELLER AND PURCHASER CONSENT TO THE EXERCISE OF JURISDICTION IN PERSONAM BY THE COURTS OF THE STATE OF TEXAS FOR ANY ACTION ARISING OUT OF THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY. ALL ACTIONS OR PROCEEDINGS WITH RESPECT TO, ARISING DIRECTLY OR INDIRECTLY IN CONNECTION WITH, OUT OF, RELATED TO OR FROM THIS AGREEMENT OR THE OTHER TRANSACTION DOCUMENTS SHALL BE EXCLUSIVELY LITIGATED IN COURTS HAVING SITES IN HOUSTON, HARRIS COUNTY, TEXAS.

**Section 17.6 Notices.** All notices and communications required or permitted to be given hereunder shall be in writing and shall be delivered personally, by email (provided that confirmation of receipt of such email is requested and received, which confirmation shall be provided reasonably promptly following receipt) or sent by bonded overnight courier, or mailed by U.S. Express Mail or by certified or registered United States Mail with all postage fully prepaid, addressed to Seller or Purchaser, as appropriate, at the address for such Person shown below or at such other address as Seller or Purchaser shall have theretofore designated by written notice delivered to the other Parties:

**If to Seller:**

XTO Energy Inc.  
22777 Springwoods Village Parkway, Loc. 115  
Spring, Texas 77389  
Attention: Land Acquisition and Divestment Manager

**With a copy to (which shall not constitute notice to Seller):**

XTO Energy Inc.  
22777 Springwoods Village Parkway, Loc. 119  
Spring, Texas 77389  
Attention: UOG Unconventional Divestment Manager

**If to Purchaser:**

Empire New Mexico LLC



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2200 South Utica Place, Suite 150  
Tulsa, Oklahoma 74114  
Attention: Thomas W. Pritchard  
Email: [tommyp@empirepetrocorp.com](mailto:tommyp@empirepetrocorp.com)

With a copy to (which shall not constitute notice to Purchaser):

Conner & Winters, LLP  
4100 First Place Tower  
15 East Fifth Street  
Tulsa, Oklahoma 74103  
Attention: J. Ryan Sacra  
Email: [rsacra@cwlaw.com](mailto:rsacra@cwlaw.com)

Any notice given in accordance herewith shall be deemed to have been given as of the date of receipt by the intended Party.

**Section 17.7 Timing.** Timing is of the essence for performance of the Parties' respective obligations hereunder; provided that if the date specified in this Agreement for giving any notice or taking any action under this Agreement is not a Business Day (or if the period during which any notice is required to be given or any action taken expires on a date which is not a Business Day), then the date for giving such notice or taking such action (or the expiration date of such period during which notice is required to be given or action taken) shall be the next day which is a Business Day.

**Section 17.8 Confidentiality.** Any information concerning the Assets (including any information discovered as a result of Purchaser's Environmental Assessment) or any aspect of the transactions contemplated by this Agreement shall be subject to the terms of the Confidentiality Agreement. This obligation shall terminate on the earlier to occur of (a) the Closing, or (b) such time as the information and data in question becomes generally available to the oil and gas industry other than through the breach these obligations by Purchaser or its officers, employees or representatives.

**Section 17.9 Publicity.** The Parties shall consult with each other before they or their Affiliates issue any press release, make any other public statement or schedule any press conference or conference call with investors or analysts with respect to this Agreement or the transactions contemplated by this Agreement. Further, neither Seller nor Purchaser shall issue any press release, make any other public statement or schedule any press conference or conference call concerning this Agreement and the transactions contemplated hereby without the prior written consent of the other Party, except as required to be issued by a Party pursuant to applicable Law including the applicable rules or regulations of any governmental authority or stock exchange.

**Section 17.10 Use of Seller's Names.** Purchaser agrees that, as soon as practicable after the Closing, but in no event longer than sixty (60) days after Closing, it will remove or cause to be removed the names and marks used by Seller and all variations and derivatives thereof and logos

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relating thereto from the Assets and Purchaser will not make any use whatsoever of such names, marks and logos.

**Section 17.11 Severability.** If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the contemplated transactions is not affected in any material adverse manner to either Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the contemplated transactions are fulfilled to the extent possible.

**Section 17.12 Parties in Interest.** The terms and provisions of this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. Notwithstanding anything contained in this Agreement to the contrary, nothing in this Agreement, expressed or implied, is intended to confer on any Person other than Seller and Purchaser and their respective successors and permitted assigns, or the Parties' respective related Indemnified Parties hereunder, any rights, remedies, obligations or liabilities under or by reason of this Agreement, provided that only a Party and its respective successors and permitted assigns will have the right to enforce the provisions of this Agreement on its own behalf or on behalf of any of its related Indemnified Parties.

**Section 17.13 Conspicuousness.** PURCHASER ACKNOWLEDGES THAT THE PROVISIONS OF THIS AGREEMENT THAT ARE PRINTED IN THE SAME MANNER AS THIS SECTION ARE CONSPICUOUS.

**Section 17.14 Execution in Counterparts.** This Agreement may be executed in counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute for all purposes one agreement. Facsimiles or other electronic copies (e.g., PDFs) of executed counterparts shall be deemed to be original instruments

*[Signature Page Follows]*

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**IN WITNESS WHEREOF, Purchaser and Seller have executed and delivered this Agreement effective as of the Effective Time.**

**SELLER:**

**XTO HOLDINGS, LLC**

DocuSigned by:  
By: Phyllis Hinze  
Name: Phyllis Hinze  
Title: Agent and Attorney-In-Fact

**PURCHASER:**

**EMPIRE NEW MEXICO LLC**

By: \_\_\_\_\_  
Name: **Thomas W Pritchard**  
Title: **Chief Executive Officer**

**IN WITNESS WHEREOF, Purchaser and Seller have executed and delivered this Agreement effective as of the Effective Time.**

**SELLER:**

**XTO HOLDINGS, LLC**

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

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

Title: \_\_\_\_\_

**PURCHASER:**

**EMPIRE NEW MEXICO LLC**

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

Name: **Thomas W Pritchard**

Title: **Chief Executive Officer**



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**Appendix A**  
**Defined Terms**

Capitalized terms used in this Agreement have the following meanings:

“**Adjusted Purchase Price**” has the meaning set forth in Section 3.4.

“**AFE**” has the meaning set forth in Section 5.10.

“**Affiliate**” means with respect to any Person, a Person that, directly or indirectly, through one or more entities, controls, is controlled by or is under common control with the Person specified. For the purpose of the immediately preceding sentence, the term “control” and its syntactical variants mean the power, direct or indirect, to direct or cause the direction of the management of such Person, whether through the ownership of voting securities, by contract, agency or otherwise.

“**Aggregate Environmental Defect Deductible**” has the meaning set forth in Section 4.12.

“**Aggregate Title Defect Deductible**” has the meaning set forth in Section 4.16.

“**Agreed Accounting Firm**” means KPMG, or if KPMG does not agree to serve as the Agreed Accounting Firm, then such other nationally-recognized independent accounting firm as mutually agreed to by Purchaser and Seller; provided that if the Parties cannot so agree within fourteen (14) days following the notification by KPMG that it does not agree to serve as the Agreed Accounting Firm, then either Party can request that the Houston, Texas office of the American Arbitration Association appoint such Agreed Accounting Firm.

“**Agreement**” has the meaning set forth in the Preamble.

“**Allocated Value**” has the meaning set forth in Section 3.1.

“**Asset Taxes**” means all Property Taxes and all Severance Taxes.

“**Assets**” has the meaning set forth in Section 2.2.

“**Assigned Office**” has the meaning set forth in Section 2.2(c).

“**Assignment**” shall mean the Assignment and Bill of Sale from Seller to Purchaser pertaining to the Assets and substantially in the form of Exhibit E.

“**Assumed Obligations**” has the meaning set forth in Section 11.1.

“**Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks in Texas are generally open for business.

“**Casualty Loss**” means an event where any of the Assets are (a) taken in condemnation or under the right of eminent domain, or (b) damaged or destroyed by fire or other casualty or act of God.

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“**Claim Notice**” has the meaning set forth in Section 11.7.

“**Closing**” has the meaning set forth in Section 10.1.

“**Closing Date**” means the date upon which Closing occurs (or should occur assuming the conditions to Closing have been satisfied or waived by the applicable Party).

“**Confidentiality Agreement**” means the Confidentiality Agreement, dated as of November 5, 2020, between Seller and Empire Petroleum Corp, a Delaware corporation.

“**Customary Post-Closing Consents**” means those consents and approvals from governmental authorities for the assignment of the Assets to Purchaser that are customarily obtained after such assignment of properties similar to the Assets.

“**Defect Notice Date**” has the meaning set forth in Section 4.3.

“**Defensible Title**” shall mean such title of Seller to the Wells that, as of the Effective Time and immediately prior to the Closing and subject to Permitted Encumbrances:

(a) with respect to the Well, entitles Seller to receive during the entirety of the productive life of such Well not less than the Net Revenue Interest for such Well as set forth in Exhibit B, except for (i) decreases in connection with those operations in which Seller or its successors or assigns may from and after the date of the execution of this Agreement be a non-consenting co-owner, (ii) decreases resulting from the establishment or amendment from and after the date of the execution of this Agreement of pools or units, (iii) decreases required to allow other Working Interest owners to make up past underproduction or pipelines to make up past under deliveries, and (iv) as otherwise expressly set forth in Exhibit B;

(b) with respect to the Well, obligates Seller to bear during the entirety of the productive life of such Well not more than the Working Interest for such Well as set forth in Exhibit B, except (i) increases resulting from contribution requirements with respect to defaulting co-owners under applicable operating agreements, (ii) increases to the extent that they are accompanied by a proportionate increase in Seller’s Net Revenue Interest in such Well, (iii) increases resulting from the establishment or amendment from and after the date of the execution of this Agreement of pools or units, and (iv) as otherwise expressly set forth in Exhibit B; and

(c) is free and clear of all Encumbrances.

“**Deposit**” means an amount equal to ten percent (10%) of the Purchase Price.

“**Dispute Notice**” has the meaning set forth in Section 12.1(a).

“**Effective Time**” means 12:00:01 a.m. (Houston time) on January 1, 2021.

“**Employee List**” has the meaning set forth in Section 16.1.

“**Employees**” has the meaning set forth in Section 16.1.

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**“Encumbrance”** means any lien, security interest, pledge, charge, defect or similar encumbrance.

**“Environmental Defect”** means a condition with respect to the air, land, soil, surface, subsurface strata, surface water, ground water or sediments that (a) constitutes a violation of Environmental Laws in effect as of the Effective Time in the jurisdiction to which the affected Assets are subject, or (b) constitutes a physical condition that requires, if known, or will require, once sufficiently discovered, reporting to a governmental authority, investigation, monitoring, removal, cleanup, remediation, restoration or correction under Environmental Laws. For the avoidance of doubt, (i) the fact that a Well is no longer capable of producing sufficient quantities of oil or gas to continue to be classified as a “producing well” or that such a Well should be temporarily abandoned or permanently plugged and abandoned shall not, in each case, form the basis of an Environmental Defect, (ii) the fact that a pipe is temporarily not in use shall not form the basis of an Environmental Defect, and (iii) except with respect to equipment (A) that causes or has caused any environmental pollution, contamination or degradation where Remediation is presently required (or if known or confirmed, would be presently required) under Environmental Laws or (B) the use or condition of which is a violation of Environmental Law in effect as of the Effective Time, the physical condition of any surface or subsurface production equipment, including water or oil tanks, separators or other ancillary equipment, shall not form the basis of an Environmental Defect.

**“Environmental Defect Notice”** has the meaning set forth in Section 4.10.

**“Environmental Defect Property”** has the meaning set forth in Section 4.10.

**“Environmental Law”** means any Laws pertaining to safety, health or conservation or protection of the environment, wildlife, or natural resources in effect in any and all jurisdictions in which the Assets are located, including the Clean Air Act, as amended, the Federal Water Pollution Control Act, as amended, the Safe Drinking Water Act, as amended, the Comprehensive Environmental Response, Compensation and Liability Act, as amended (“CERCLA”), the Superfund Amendments and Reauthorization Act of 1986, as amended, the Resource Conservation and Recovery Act, as amended (“RCRA”), the Hazardous and Solid Waste Amendments Act of 1984, as amended, the Toxic Substances Control Act, as amended, the Occupational Safety and Health Act, as amended, and any applicable state, tribal, or local counterparts, but shall not include any applicable Law associated with plugging and abandonment of any well. The terms “hazardous substance”, “release”, and “threatened release” shall have the meanings specified in CERCLA; provided, however, that to the extent the Laws of the state in which the Assets are located are applicable and have established a meaning for “hazardous substance”, “release”, “threatened release”, “solid waste”, “hazardous waste”, and “disposal” that is broader than that specified in CERCLA or RCRA, such broader meaning shall apply with respect to the matters covered by such Laws.

**“Excluded Assets”** has the meaning set forth in Section 2.3.

**“Existing Contracts”** means, except for any Excluded Asset, all contracts, agreements and instruments by which any of the Leases, Wells or other Assets are bound, or to which any of the Leases, Wells or other Assets are subject (but in each case only to the extent applicable to such

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Leases, Wells or other Assets and not to other properties of Seller or its Affiliates not included in the Assets), including operating agreements, unitization, pooling and communitization agreements, declarations and orders, joint venture agreements, farmin and farmout agreements, water rights agreements, exploration agreements, area of mutual interest agreements, participation agreements, exchange agreements, transportation or gathering agreements, agreements for the sale and purchase of Hydrocarbons and processing agreements; provided, that "Existing Contracts" shall exclude (a) any master service agreements, blanket agreements and similar contracts and (ii) all of the instruments constituting the Leases, Rights-of-Way or creating or assigning any real property interest.

"ExxonMobil Policies" has the meaning set forth in Section 11.11.

"Final Payment Date" has the meaning set forth in Section 12.1(a).

"Final Price" has the meaning set forth in Section 12.1(a).

"Final Settlement Date" has the meaning set forth in Section 12.1(a).

"Final Settlement Statement" has the meaning set forth in Section 12.1(a).

"GAAP" means generally accepted accounting principles in the United States, consistently applied.

"Hydrocarbons" means all oil and gas and all other hydrocarbons produced or processed in association therewith.

"Indemnity Deductible" has the meaning set forth in Section 11.5(a).

"Individual Environmental Defect Threshold" has the meaning set forth in Section 4.12.

"Individual Title Defect Threshold" has the meaning set forth in Section 4.6.

"Imbalance" means any Pipeline Imbalance or Well Imbalance.

"Indemnified Party" has the meaning set forth in Section 11.8.

"Indemnifying Party" has the meaning set forth in Section 11.8.

"Interim Period" means the period from and after the execution of this Agreement up until the Closing.

"Knowledge" means with respect to Seller, the actual knowledge (upon reasonable investigation) of the Persons set forth on Schedule 1.1.

"Law" means any applicable law, statute, regulation, ordinance, order, code, ruling, writ, injunction, decree or other act of or by any governmental authority (including any administrative, executive, judicial, legislative, regulatory or taxing authority).

"Leases" has the meaning set forth in Section 2.2(a).



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**“Like-Kind Exchange Transaction”** means a like-kind exchange, in whole or in part, as provided in Section 1031 of the Internal Revenue Code and the Treasury Regulations thereto, and if applicable, Rev. Proc. 2000-37, 2000-2 C.B. 308 (Sept. 18, 2000), as amended by Rev. Proc. 2004-51, 2004-33 I.R.B. 294 (Jul. 20, 2004).

**“Longstop Date”** has the meaning set forth in Section 10.1.

**“Losses”** means any and all claims, causes of action, proceedings, hearings, payments, charges, judgments, injunctions, orders, decrees, assessments, liabilities, losses, damages, penalties, fines, obligations, deficiencies, debts or costs and expenses, including any attorneys’ fees, legal or other expenses incurred in connection therewith and including liabilities, costs, losses and damages for personal injury or death or property damage or environmental damage or Remediation.

**“Material Adverse Effect”** means with respect to Seller, any event, result, occurrence, condition or circumstance that, individually or in the aggregate (whether foreseeable or not and whether covered by insurance or not), results in a material adverse effect on the (a) ownership or operation of the Assets, taken as a whole and as currently operated as of the date of the execution of this Agreement, or (b) ability of any Seller to consummate the transactions contemplated by this Agreement and perform its obligations hereunder; provided, however, that a Material Adverse Effect shall not include any material adverse effects resulting from: (i) entering into this Agreement or the announcement of the transactions contemplated by this Agreement; (ii) changes in general market, economic, financial or political conditions (including changes in commodity prices (including Hydrocarbons), fuel supply or transportation markets, interest or rates) in the area in which the Assets are located, the United States or worldwide; (iii) conditions (or changes in such conditions) generally affecting the oil and gas and/or gathering, processing or transportation industry whether as a whole or specifically in any area or areas where the Assets are located; (iv) acts of God, including storms or meteorological events; (v) orders, actions or failures to act of governmental authorities; (vi) civil unrest or similar disorder, the outbreak of hostilities, terrorist acts or war; (vii) any actions taken or omitted to be taken (A) by or at the written request or with the prior written consent of Purchaser or (B) as expressly permitted or prescribed hereunder; (viii) matters that are cured or no longer exist by the earlier of the Closing and the termination of this Agreement; (ix) any Casualty Loss; (x) a change in Laws or in GAAP interpretation from and after the date of the execution of this Agreement; (xi) reclassification or recalculation of reserves in the ordinary course of business; and (xii) natural declines in well performance.

**“Material Contracts”** has the meaning set forth in Section 5.14.

**“Near Retirement Eligible Employees”** has the meaning set forth in Section 16.2.

**“Net Revenue Interest”** means with respect to any Well, the interest in and to all Hydrocarbons produced, saved and sold from or allocated to such Well, after giving effect to all royalties, overriding royalties, production payments, carried interests, net profits interests, reversionary interests and other burdens upon, measured by or payable out of production therefrom.

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**"NORM"** means naturally occurring radioactive material.

**"Overriding Royalty"** means an overriding royalty interest for the benefit of Seller equal to four percent (4%) (not proportionally reduced) net revenue interest in the Leases and contractual interests in any individual field in which such Leases and contractual interests are located insofar and only insofar as such interests pertain to the time period after which Purchaser conducts any carbon dioxide tertiary recovery efforts commencing after the Effective Time in such field.

**"Parties"** and **"Party"** has the meaning set forth in the Preamble.

**"Performance Bond"** has the meaning set forth in Section 7.5.

**"Permit"** means all permits, licenses, authorizations, registrations, consents or approvals (in each case) granted or issued by any governmental authority.

**"Permitted Encumbrances"** means with respect to any Asset, any of the following:

- (a) the terms and conditions of all Leases and all lessor's royalties, non-participating royalties, overriding royalties, reversionary interests and similar burdens upon, measured by or payable out of production if the net cumulative effect of such Leases and burdens does not operate to reduce the Net Revenue Interest of Seller in any Well below the Net Revenue Interest as set forth in Exhibit B for such Well and does not operate to increase the Working Interest of Seller in such Well above the Working Interest for such Well as set forth in Exhibit B for such Well (unless the Net Revenue Interest for such Well is greater than the Net Revenue Interest for such Well as set forth in Exhibit B in the same proportion as any increase in such Working Interest);
- (b) Preferential Rights and consents (including Required Consents) to assignment and similar transfer restrictions or requirements;
- (c) liens for taxes or assessments not yet delinquent or, if delinquent, that are being contested in good faith in the normal course of business;
- (d) materialman's, mechanic's, repairman's, employee's, contractor's, operator's, and other similar liens or charges arising in the ordinary course of business (i) if they have not been filed pursuant to Law, or (ii) if filed, they have not yet become due and payable;
- (e) liens or Encumbrances in the form of a judgment secured by a supersedeas bond or other security approved by the court issuing the order;
- (f) the loss of lease acreage between the Effective Time and Closing because the lease term expires;
- (g) Customary Post-Closing Consents and any required notices to, or filings with, governmental authorities in connection with the consummation of the transactions contemplated by this Agreement;
- (h) rights of reassignment arising upon final intention to abandon or release the Assets, or any of them;

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(i) the Rights-of-Way and, to the extent that they do not materially interfere with the operation of the Assets (as currently operated), all other easements, rights-of-way, servitudes, Permits, surface leases and other rights relating to surface operations, facilities, pipelines, transmission lines, transportation lines, distribution lines and other like purposes;

(j) all other liens, charges, encumbrances, contracts, agreements, instruments, obligations, defects and irregularities affecting the Assets which individually or in the aggregate are not such as to materially interfere with the operation of any of the Assets (as currently operated), do not reduce the Net Revenue Interest of Seller in any Well below the Net Revenue Interest set forth on Exhibit B for such Well, and do not increase the Working Interest of Seller in such Well above the Working Interest set forth in Exhibit B for such Well (unless the Net Revenue Interest for such Well is greater than the Net Revenue Interest for such Well as set forth in Exhibit B in the same proportion as any increase in such Working Interest);

(k) all rights reserved to or vested in any governmental authority to control or regulate any of the Assets in any manner, and all applicable Permits and Laws;

(l) rights of a common owner of any interest in Rights-of-Way or Permits held by Seller and such common owner as tenants in common or through common ownership;

(m) liens created under Leases or Rights-of-Way included in the Assets and/or operating agreements or production sales contracts or by operation of Law in respect of obligations that are not yet due or delinquent or, if delinquent, which are being contested in good faith by appropriate procedures by or on behalf of Seller;

(n) any Encumbrance affecting the Assets that is discharged by Seller at or prior to Closing;

(o) any Title Defects that Purchaser may have expressly waived in writing or which are deemed to have been waived under Section 4.4, or that do not meet the Individual Title Defect Deductible or Aggregate Title Defect Deductible as set forth in Section 4.6;

(p) the terms and conditions of the Existing Contracts to the extent that they do not, individually or in the aggregate, (i) reduce the Net Revenue Interest of Seller in any Well below the Net Revenue Interest as set forth in Exhibit B for such Well, (ii) increase the Working Interest of Seller in such Well above the Working Interest for such Well as set forth in Exhibit B for such Well (unless the Net Revenue Interest for such Well is greater than the Net Revenue Interest for such Well as set forth in Exhibit B in the same proportion as any increase in such Working Interest) or (iii) impair in any material respect the prudent or current ownership and/or operation of any of the Assets by Seller (or by Purchaser as Seller's successor-in-interest from and after Closing);

(q) the terms and conditions of this Agreement;

(r) all Imbalances;

(s) the litigation, suits and proceedings set forth in Schedule 5.9 to the extent that such litigation, suits or proceedings do not, individually or in the aggregate, to (i) reduce the Net Revenue Interest of Seller in any Well below the Net Revenue Interest as set forth in Exhibit B for such Well, (ii) increase the Working Interest of Seller in such Well above the Working Interest

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for such Well as set forth in Exhibit B for such Well (unless the Net Revenue Interest for such Well is greater than the Net Revenue Interest for such Well as set forth in Exhibit B in the same proportion as any increase in such Working Interest) or (iii) impair in any material respect the prudent or current ownership and/or operation of any of the Assets by Seller (or by Purchaser as Seller's successor-in-interest from and after Closing); and

(t) any matter that would not constitute a Title Defect under the terms of this Agreement.

**"Person"** means an individual, corporation, partnership, association, trust, limited liability company or any other entity or organization, including government or political subdivisions or an agency, unit or instrumentality thereof.

**"Pipeline Imbalance"** means any marketing imbalance between the quantity of Hydrocarbons attributable to the Assets required to be delivered by any Seller under any contract or Law relating to the purchase and sale, gathering, transportation, storage, processing or marketing of such Hydrocarbons and the quantity of Hydrocarbons attributable to the Assets actually delivered by Seller pursuant to the relevant contract or at Law, together with any appurtenant rights and obligations concerning production balancing at the delivery point into the relevant sale, gathering, transportation, storage or processing facility.

**"Plugging and Abandonment Obligations"** has the meaning set forth in Section 11.1(b).

**"Preferential Rights"** has the meaning set forth in Section 4.8.

**"Preliminary Settlement Statement"** has the meaning set forth in Section 10.2.

**"Property Expenses"** means all operating expenses (including Property Taxes and all insurance premiums or any other costs of insurance attributable to Seller's and/or its Affiliates' insurance and to coverage periods from and after the Effective Time but excluding in all cases, all costs and expenses of bonds, letters of credit or other surety instruments) and all capital expenditures (in each case) incurred in the ownership and operation of the Assets in the ordinary course of business and, where applicable, in accordance with the relevant operating or unit agreement, if any, and overhead costs charged to the Assets under the relevant operating agreement or unit agreement, if any, or otherwise allocable to the Assets, but excluding all Losses attributable to (i) personal injury or death, property damage or violation of any Law, (ii) Plugging and Abandonment Obligations, (iii) the Remediation of any environmental condition under applicable Environmental Laws, (iv) obligations with respect to Imbalances, or (v) obligations to pay Working Interest owners, royalties, overriding royalties or other interest owners revenues or proceeds attributable to sales of Hydrocarbons relating to the Assets, including those held in suspense.

**"Property Taxes"** means all ad valorem taxes, real property taxes, personal property taxes, and similar obligations relating to the Assets.

**"Purchase Price"** has the meaning set forth in Section 3.1.

**"Purchaser"** has the meaning set forth in the Preamble.

**"Purchaser Group"** means Purchaser and its Affiliates and each of their respective



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officers, directors, employees, agents and representatives.

**"Purchaser's Environmental Assessment"** has the meaning set forth in Section 4.9.

**"Records"** has the meaning set forth in Section 12.4(a).

**"Remediation"** means with respect to an environmental condition or Environmental Defect, the response required or allowed under Environmental Laws that completely addresses (for current and future use in the same manner as being currently used) the identified environmental condition or Environmental Defect at the lowest cost (considered as a whole) as compared to any other response that is required or allowed under Environmental Laws. "Remediation" may consist of or include taking no action, leaving the condition unaddressed, periodic monitoring, the use of institutional controls or the recording of notices in lieu of remediation, in each case, if such response is allowed under Environmental Laws and completely addresses and resolves (for current and future use in the same manner as being currently used) the identified environmental condition or Environmental Defect.

**"Remediation Amount"** means with respect to an environmental condition or Environmental Defect, the present value as of the Closing Date of the cost (net to Seller's interest) of the Remediation of such condition or defect; provided, however, that "Remediation Amount" shall not include (a) the costs of Purchaser's and/or its Affiliate's employees, or, if Seller is conducting the Remediation, Purchaser's project manager(s) or attorneys, (b) expenses for matters that are ordinary costs of doing business regardless of the presence of an Environmental Condition (c.g., those costs that would ordinarily be incurred in the day-to-day operations of the Assets or in connection with Permit renewal/amendment activities), (c) overhead costs of Purchaser and/or its Affiliates, (d) costs and expenses that would not have been required under Environmental Laws as they exist on the Closing Date or, if prior to the Closing Date, the date on which the Remediation action is being undertaken, or (e) any costs or expenses relating to the assessment, remediation, removal, abatement, transportation and disposal of any asbestos, asbestos-containing materials or NORM unless required to address a violation of Environmental Law. Notwithstanding anything to the contrary in this Agreement, the aggregate Remediation Amounts attributable to the effects of all Environmental Defects upon any Environmental Defect Property shall not exceed the Allocated Value of such Environmental Defect Property.

**"Required Consent"** means any consent or approval where the failure to obtain such consent or approval would cause (or give the lessor or grantor the right to cause) (a) the assignment of the Assets affected thereby to Purchaser to be void or voidable, or (b) the termination of or the right to terminate a Lease, Existing Contract or Right-of-Way under the express terms thereof.

**"Rights-of-Way"** means, except for any Excluded Asset, all permits, licenses, servitudes, easements, fee surface, surface leases and rights-of-way primarily used or held for use in connection with the ownership or operation of the Assets, other than Permits.

**"Royalty-Free Lease"** means a royalty-free oil and gas lease in the form attached as Exhibit C.

**"Scheduled Closing Date"** has the meaning set forth in Section 10.1.

**"Seller"** has the meaning set forth in the Preamble.

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**“Seller Group”** means Seller and its Affiliates and each of their respective directors, officers, employees, agents and representatives.

**“Severance Taxes”** means all severance, production or other taxes measured by hydrocarbon production from the Assets, or the receipt of proceeds therefrom.

**“Suspense Funds”** has the meaning set forth in Section 12.2.

**“Target Settlement Date”** has the meaning set forth in Section 12.1(a).

**“Title Benefit”** has the meaning set forth in Section 4.7.

**“Title Benefit Amount”** has the meaning set forth in Section 4.7.

**“Title Defect”** means any Encumbrance, defect or other matter that causes Seller not to have Defensible Title; provided that the following shall not be considered Title Defects:

(a) defects arising out of lack of corporate or other entity authorization or defects consisting of the failure to recite marital status in a document or omissions of successions of heirship or estate proceedings, (in each case) unless Purchaser provides affirmative evidence that such that such corporate or other entity action was not authorized and has resulted, or such failure or omission (in either case) has resulted, in another Person’s superior claim of title to the relevant Asset;

(b) defects based on a gap in Seller’s chain of title in the applicable county records, unless such gap is affirmatively shown to exist in such records by an abstract of title, title opinion or landman’s title chain or run sheet which documents shall be included in a Title Defect Notice and has resulted in another Person’s superior claim of title to the relevant Asset;

(c) defects based upon the failure to record any federal, state or tribal Lease or Right-of-Way included in the Assets, or any assignments of interests in such Leases or Rights-of-Way included in the Assets, in the applicable county records, unless such failure has resulted in another Person’s superior claim of title to the relevant Asset;

(d) defects arising from any prior oil and gas lease relating to the lands covered by the Leases or Units not being surrendered of record, unless Purchaser provides affirmative evidence that such prior oil and gas lease is still in effect and has resulted in another Person’s actual and superior claim of title to the relevant Lease or Well;

(e) defects that affect only which Person has the right to receive payments of royalties or other burdens on production and that do not affect the validity of the underlying Lease;

(f) defects based solely on: (i) lack of information in Seller’s files, (ii) references to an unrecorded document to which neither Seller nor any Affiliate of Seller is a party and which document is dated earlier than January 1, 1960; or (iii) any tax assessment, tax payment or similar records or the absence of such activities or records;

(g) any Encumbrance or loss of title resulting from Seller’s conduct of business in compliance with this Agreement;

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(h) defects as a consequence of cessation of production, insufficient production or failure to conduct operations during any period after the completion of a well capable of production in paying quantities on any of the Leases held by production, or lands pooled or unitized therewith, except to the extent a claims is pending with respect thereto or the cessation of production is affirmatively shown to have occurred within the past five years and it will give rise to a right of the lessor or other third party to terminate the underlying Lease, which documentation shall be provided by Purchaser to Seller in a Title Defect Notice;

(i) Encumbrances created under deeds of trust, mortgages and similar instruments by the lessor under a Lease covering the lessor's interests in the land covered thereby that would customarily be accepted in taking or purchasing such Leases and for which a reasonably prudent lessee would not customarily seek a subordination of such Encumbrance to the oil and gas leasehold estate prior to conducting drilling activities on the Lease;

(j) all defects or irregularities that have been cured or remedied by applicable statutes of limitation or statutes of prescription;

(k) all defects or irregularities resulting from lack of survey unless such survey is required by applicable Law;

(l) all defects or irregularities resulting from the failure to record releases of liens, production payments or mortgages that have expired on their own terms or the enforcement of which are barred by applicable statute of limitations;

(m) Encumbrances created under deeds of trust, mortgages and similar instruments by the grantor under a Right-of-Way that would customarily be accepted by a reasonably prudent oil and gas operator or reasonably prudent pipeline owner in taking or purchasing such Rights-of-Way;

(n) defects arising as a result of actions taken by Purchaser or Purchaser's failure to consent to any action pursuant to Section 7.1 below; and

(o) defects arising as a result of a change in applicable Law after the Effective Time.

In addition, evidence that Seller is receiving its full share of proceeds from a purchaser or third party operator attributable to its net revenue interest for any Well listed on Exhibit B shall create a presumption that no Title Defect exists.

"Third Party Claim" has the meaning set forth in Section 11.8.

"Title Defect Amount" has the meaning set forth in Section 4.5.

"Title Defect Notice" has the meaning set forth in Section 4.3.

"Title Defect Property" has the meaning set forth in Section 4.3.

"Transaction Documents" means those documents executed and delivered pursuant to or in connection with this Agreement.

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**"Transferred Vehicles"** shall mean (i) those certain vehicles (or vehicle leases, to the extent permitted to be transferred by the applicable vehicle leasing company) that are directly associated with the transferred Employees and (ii) any other vehicles that Seller and Purchaser mutually agree shall be transferred from Seller to Purchaser.

**"Units"** has the meaning set forth in Section 2.2(c).

**"Wells"** has the meaning set forth in Section 2.2(b).

**"Well Imbalance"** means any imbalance at the wellhead between the amount of Hydrocarbons produced from a Well and allocable to the interests of Seller therein and the shares of production from the relevant Well to which Seller is entitled, together with any appurtenant rights and obligations concerning future in kind and/or cash balancing at the wellhead.

**"Willful Breach"** means with respect to any Party, such Party knowingly and intentionally breaches in any material respect (by refusing to perform or taking an action prohibited) any material covenant applicable to such Party.

**"Working Interest"** means with respect to any Well, the interest in and to such Well that is burdened with the obligation to bear and pay costs and expenses of maintenance, development and operations on or in connection with such Well, but without regard to the effect of any royalties, overriding royalties, production payments, net profits interests and other similar burdens upon, measured by or payable out of production therefrom.



# **EXHIBIT A - 6**

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STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY AND MINERALS  
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION FOR THE PURPOSE OF  
CONSIDERING:

CASE No. 8397  
Order No. R-7765

APPLICATION OF GULF OIL CORPORATION  
FOR STATUTORY UNITIZATION, EUNICE  
MONUMENT SOUTH UNIT, LEA COUNTY,  
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This case came on for hearing at 9:00 A.M. on November 7, 1984, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 27th day of December, 1984, the Commission, a quorum having been present, having considered the testimony and the record and being otherwise fully advised in the premises:

FINDS THAT:

(1) Due public notice has been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Gulf Oil Corporation (hereinafter called Gulf), seeks the statutory unitization, pursuant to the "Statutory Unitization Act," Sections 70-7-1 through 70-7-21, NMSA-1978, of 14,189.84 acres, more or less, being a portion of the Eunice Monument Pool, Lea County, New Mexico, as more specifically defined in Commission Case 8397, said portion to be known as the Eunice Monument South Unit; that applicant further seeks approval of the Unit Agreement and the Unit Operating Agreement which were submitted in evidence as Gulf's Exhibits Nos. 3 and 4.

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Case No. 8397

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(3) The proposed unit area should be designated the Eunice Monument South Unit Area, (hereinafter called unit) and the horizontal limits of said unit area should be comprised of the following described lands:

TOWNSHIP 20 SOUTH, RANGE 36 EAST, NMPM

Section 25: All

Section 36: All

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM

Section 30: S/2, S/2 N/2, NE/4 NW/4 and NW/4  
NE/4

Section 31: All

Section 32: All

TOWNSHIP 21 SOUTH, RANGE 36 EAST, NMPM

Section 2: S/2 S/2

Section 3: Lots 3, 4, 5, 6, 11, 12, 13, and 14  
and S/2

Section 4 through 11: All

Section 12: W/2 SW/4

Section 13: NW/4 NW/4

Section 14 through 18: All

Section 21: N/2 and N/2 S/2

Section 22: N/2 and N/2 S/2

(4) The subject Commission Case 8397 was consolidated for hearing with Commission Cases 8398 and 8399.

(5) Said unit has been approved by the Bureau of Land Management and the Commissioner of Public Lands of the State of New Mexico subject to the approval of statutory unitization by the Oil Conservation Commission.

(6) No interested party has opposed the horizontal limits of the said unit.

(7) The horizontal limits of said unit are reasonably defined by development and have a reasonable geologic relationship to the proposed unitized formations.

(8) The vertical limits of said unit should comprise that interval underlying the unit area, the vertical limits of which extend from an upper limit described at 100 feet below mean sea level or at the top of the Grayburg formation, whichever is higher, to a lower limit at the base of the San Andres formation; the geologic markers

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having been previously found to occur at 3,666 feet and 5,283 feet, respectively, in Continental Oil Company's Meyer B-4 Well No. 23 (located at 660 feet from the South line and 1,980 feet from the East line of Section 4, Township 21 South, Range 36 East, Lea County, New Mexico) and as recorded on the Welex Acoustic Velocity Log taken on October 30, 1962, said log being measured from a Kelly drive bushing elevation of 3,595 feet above sea level.

(9) The establishment of said vertical limits requires the amendment of the vertical limits of the Eumont Gas Pool and the Eunice Monument Pool under the unit area as is the subject of Commission Case 8399 and Order No. R-7767.

(10) The "unitized formation" will include the entire oil column under the unit area permitting the efficient and effective recovery of secondary oil therefrom.

(11) No interested party has objected to the vertical interval proposed to be unitized.

(12) The unit area contains 101 separate tracts owned by 41 different working interests.

(13) As of the date of the hearing, over 90 percent of working interest owners and royalty interest owners were effectively committed to the unit.

(14) Gulf proposes to institute a waterflood project for the secondary recovery of oil and associated gas, condensate, and all associated liquifiable hydrocarbons within and to be produced from the proposed unit area, all as shown in Commission Case 8398.

(15) A technical committee was formed by the owners within the proposed unit to evaluate aspects of unitization and operation of the proposed secondary recovery operation (waterflood).

(16) The technical committee concluded that the probable range of recovery from the proposed waterflood is from 25 percent to 100 percent of ultimate primary production.

(17) Said committee further concluded that based upon response to waterflooding in similar reservoirs, 48 percent of ultimate primary or 64.2 million barrels of additional (secondary) oil would be recovered by institution of the proposed waterflood.



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(18) The unitized management, operation, and further development of the unit, as proposed, is reasonable and necessary to effectively and efficiently carry on secondary recovery operations and will substantially increase the ultimate recovery of oil and gas from the unitized formations.

(19) The proposed unitized method of operation as applied to the Unit Area is feasible and will result with reasonable probability in the increased recovery of substantially more oil from the unitized portion of the pool than would otherwise be recovered without unitization.

(20) The estimated additional investment costs of the proposed supplemental recovery operations are \$60.6 million.

(21) The additional recovery to be derived from the proposed supplemental recovery operations will have a resultant net profitability over the aforesaid additional costs and after taxes of \$1.186 billion with unitized water flooding versus \$226.7 million without unitized waterflooding.

(22) The estimated additional costs of the proposed operations (as described in Finding No. (18) above) will not exceed the estimated value of the additional oil and gas (as described in Finding No. (19) above) plus a reasonable profit.

(23) The applicant, the designated unit operator, pursuant to the Unit Agreement and the Unit Operating Agreement, has made a good faith effort to secure voluntary unitization within the unit area.

(24) Bruce Wilbanks and other interest owners in Unit Tract 55, have declined to voluntarily join the unit.

(25) Exxon Company, USA, (hereinafter "Exxon") has declined to voluntarily join the unit and has opposed the application of Gulf in this case on the basis that the participation formula contained in the Unit Agreement fails to give sufficient weight to the cumulative oil production and further that the method of providing a wellbore contribution incentive is not to Exxon's economic advantage.

(26) Exxon has a working interest of 4.86% of the unit which consists of 100% working interest in Unit Tracts 12, 37, 88, 90 and a 50% working interest in Unit Tract 89.

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(27) The participation formula proposed allocates unit production to the various tracts in accordance with the following:

Tract Participation = 50% A/B + 40% C/D + 10% E/F

Where:

- A = the tract cumulative oil production from the unitized formation as of September 30, 1982.
- B = the unit total cumulative oil production from the unitized formation as of September 30, 1982.
- C = the remaining primary oil reserves from the unitized formation for the tract, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.
- D = the remaining primary oil reserves from the unitized formation for all unit tracts, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.
- E = the amount of oil produced from the unitized formation by the tract from January 1, 1982, through September 30, 1982.
- F = the amount of oil produced from the unitized formation by all unit tracts from January 1, 1982, through September 30, 1982.

(28) The proposed formula does not take into account calculations of estimated secondary production from each tract in that insufficient cores, well logs, and reservoir data are not available to make such calculations.

(29) The proposed formula does give substantial weight to remaining primary reserves in that such reserves can be measured, that the owners of such reserves have agreed to the terms and conditions of the unit and will be deferring income therefrom to support the costs and risks of implementing secondary recovery operations in the unit.

(30) The proposed allocation formula does give owners without remaining primary reserves or with very low volumes of remaining primary reserves, such as Exxon, a disproportionately large share of the income from the production of remaining primary production during the early life of the project.

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(31) During unit negotiations, a cutoff date must be established in order to make necessary calculations of the allocation of unit costs and benefits.

(32) The adoption of the September 30, 1982, date in the subject case was necessary for such calculations and is not unreasonable.

(33) Giving consideration to the lack of technical data for estimates of secondary recovery, the reallocation of primary production in the early life of the unit, the greater risk being accepted by the owners of remaining primary reserves and the reasonableness of the September 30, 1982, cutoff date; the proposed participation formula will allocate unit production on a fair, reasonable, and equitable basis during the period that the estimated 64.2 million barrels of secondary oil is produced.

(34) During said period, it is expected that the unit operator will develop reservoir data from cores, well logs, tests and production which might be used to better allocate production to the unit during any period of recovery of secondary and tertiary oil in excess of 64.2 million barrels.

(35) The proposed formula should not apply to the allocation of secondary or tertiary oil production in excess of a total of 64.2 million barrels.

(36) Before distributing the proceeds from production of such oil in excess of 64.2 million barrels, the unit operator should be required to appear and demonstrate that the formula approved by this order continues to allocate proceeds from unit operations in a fair and equitable manner or, in the alternative, present a new allocation formula prepared on the basis of new and/or enhanced reservoir data which new formula better allocates said proceeds.

(37) Gulf proposed a Wellbore Assessment Method in the Unit Operating Agreement as an incentive to encourage the working interest owners in the unit to contribute the maximum number of existing useable wellbores to the unit.

(38) This assessment method, though not common, is used in other unit agreements.

(39) Any proration unit within the unit which is to participate in the proposed waterflood operation must have a wellbore useable for production or injection in the unitized interval.

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(40) It is not unreasonable to penalize the owners of proration units upon which there is no such wellbore and upon which the unit operator must drill a well.

(41) The proposed method of wellbore assessment is fair and reasonable.

(42) Exxon admits that each of its tracts is still reasonably profitable should the Commission approve the participation formula and the wellbore assessment method proposed by Gulf as unit operator.

(43) Unitization and the adoption of the proposed unitized method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the unit area.

(44) The Eunice Monument South Unit Agreement and Unit Operating Agreement provide for unitization and unit operation of the unit area upon terms and conditions that are fair, reasonable and equitable and which include:

(a) an allocation to the separately owned tracts in the unit area of all oil and gas that is produced from the unit area and which is saved, being the production that is not used in the conduct of unit operations or not unavoidably lost;

(b) a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;

(c) a provision governing how the costs of unit operations, including capital investments, shall be determined and charged to the separately owned tracts and how said costs shall be paid, including a provision providing when, how, and by whom, the unit production allocated to an owner who does not pay his share of the costs of unit operations shall be charged to such owners, of the interest of such owners, and how his interest may be sold and the proceeds applied to the payment of his costs;

(d) a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon such terms and conditions which are just and reasonable, and which allow an appropriate charge for interest for such service payable out of production, upon such terms and conditions



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determined by the Commission to be just and reasonable, and allowing an appropriate charge for interest for such service payable out of such owner's share of production, providing that any nonconsenting working interest owner being so carried shall be deemed to have relinquished to the unit operator all of his operating rights and working interests in and to the unit until his share of the costs, service charge and interest are repaid to the Unit Operator;

(e) a provision designating the unit operator and providing for the supervision and conduct of the unit operations, including the selection, removal or substitution of an operator from among the working interest owners to conduct the unit operations;

(f) a provision for a voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to his unit participation; and

(g) the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination;

(45) The statutory unitization of the Eunice Monument South Unit Area is in conformity with the above findings, and will prevent waste and protect the correlative rights of all owners of interest within the proposed unit area, and should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The Eunice Monument South Unit Area, comprising 14, 189.84 acres, more or less, in the Eunice Monument Oil Pool, as amended by Order R-7767, Lea County, New Mexico, is hereby approved effective December 1, 1984, for statutory unitization pursuant to the Statutory Unitization Act, Sections 70-7-1 through 70-7-21 NMSA 1978.

(2) The lands included within the Eunice Monument South Unit Area shall comprise:

TOWNSHIP 20 SOUTH, RANGE 26 EAST, NMPM

- Section 25: All
- Section 36: All

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Case No. 8397  
Order No. R-7765

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TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPMSection 30: S/2, S/2 N/2, NE/4 NW/4, and NW/4  
NE/4  
Section 31: All  
Section 32: AllTOWNSHIP 21 SOUTH, RANGE 36 EAST, NMPMSection 2: S/2 S/2  
Section 3: Lots 3, 4, 5, 6, 11, 12, 13, and 14  
and S/2  
Section 4 through 11: All  
Section 12: W/2 SW/4  
Section 13: NW/4 NW/4  
Sections 14 through 18: All  
Section 21: N/2 and N/2 S/2  
Section 22: N/2 and N/2 S/2

and that the above described lands shall be designated as the Eunice Monument South Unit Area.

(3) The vertical limits of said unit shall comprise that interval underlying the unit area, the vertical limits of which extend from an upper limit described as 100 feet below mean sea level or at the top of the Grayburg formation, whichever is higher, to a lower limit at the base of the San Andres formation; the geologic markers having been previously found to occur at 3,666 feet and 5,283 feet, respectively, in Continental Oil Company's Meyer B-4 Well No. 23 (located at 660 feet from the South line and 1,980 feet from the East line of Section 4, Township 21 South, Range 36 East, Lea County, New Mexico) and as recorded on the Welex Acoustic Velocity Log taken on October 30, 1962, said log being measured from a kelly drive bushing elevation of 3,595 feet above sea level.

(4) The applicant is hereby authorized to institute a secondary recovery project for the recovery of oil and all associated and constituent liquid or liquified hydrocarbons within the unit area, pursuant to the provisions set forth in Commission Order No. R-7766.

(5) The Eunice Monument South Unit Agreement and the Eunice Monument South Unit Operating Agreement presented by the applicant as Exhibits 3 and 4, respectively, in this case are hereby incorporated by reference into this order.

(6) The Eunice Monument South Unit Agreement and the Eunice Monument Unit Operating Agreement provide for

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Order No. R-7765

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unitization and unit operation of the subject portion of the Eunice Monument Pool upon terms and conditions that are fair, reasonable and equitable and include:

an allocation to the separately owned tracts in the unit area of all the oil and gas that is produced from the unit area and is saved, being the production that is not used in the conduct of operations on the unit area or not unavoidably lost;

a provision for the credits and charges to be made in the adjustment among the owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;

a provision for governing how the costs of unit operations including capital investments shall be determined and charged to the separately owned tracts and how said costs shall be paid including a provision providing when, how, and by whom the unit production allocated to an owner who does not pay the share of the costs of unit operations charged to such owner, or in the interest of such owner, may be sold and the proceeds applied to the payment of such costs;

a provision for carrying any working interest owner on a limited, carried or net-profits basis, payable out of production, upon such terms and conditions determined by the Commission to be just and reasonable, and allowing an appropriate charge for interest for such service payable out of such owner's share of production, provided that any non-consenting working interest owner being so carried shall be deemed to have relinquished to the unit operator all of its operating rights and working interest in and to the unit until his share of the costs, service charge and interest are repaid to the unit operator;

a provision designating the unit operator and providing for the supervision and conduct of the unit operations, including the selection, removal or substitution of an operator from among the working interest owners to conduct the unit operations;

a provision for voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner shall have a voting interest equal to its unit participation; and

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Case No. 8397  
Order No. R-7765

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the time when the unit operation shall commence and the manner in which, and the circumstances under which, the operations shall terminate and for the settlement of accounts upon such termination;

and are therefore hereby adopted.

(7) This order shall not become effective unless and until the appropriate ratification provisions of Section 70-7-8 NMSA, 1978 Compilation, are complied with.

(8) If the persons owning the required percentage of interest in the unit area as set out in Section 70-7-8 NMSA, 1978 Compilation, do not approve the plan for unit operations within a period of six months from the date of entry of this order, this order shall cease to be of further force and effect and shall be revoked by the Commission, unless the Commission shall extend the time for ratification for good cause shown.

(9) When the persons owning the required percentage of interest in the unit area have approved the plan for unit operations, the interests of all persons in the unit are unitized whether or not such persons have approved the plan of unitization in writing.

(10) Prior to distribution of the proceeds from secondary and tertiary production in excess of 64.2 million barrels, the operator shall appear at a hearing and demonstrate that the formula approved by this order continues to allocate the proceeds from unit production in a fair and equitable manner or, in the alternative, present for approval a new formula prepared on the basis of new or enhanced reservoir data which new formula better allocates said proceeds.

(11) Jurisdiction of cause is retained for the entry of such further orders as the Commission may deem necessary.



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Case No. 8397

Order No. R-7765

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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

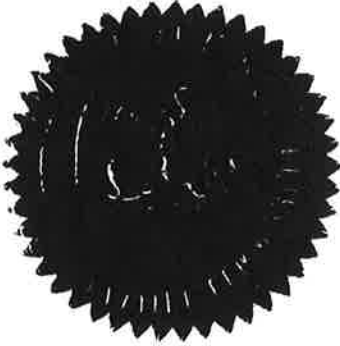
Jim Baca, Member



Ed Kelley, Member



R. L. Stamets, Chairman  
and Secretary



S E A L

# **EXHIBIT A - 7**

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STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY AND MINERALS  
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION COMMISSION  
FOR THE PURPOSE OF CONSIDERING:

CASE 8399  
Order No. R-7767

NOMENCLATURE

APPLICATION OF GULF OIL CORPORATION  
FOR POOL EXTENSION AND CONTRACTION,  
LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This case came on for hearing at 9:00 A.M. on November 7, 1984, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 27th day of December, 1984, the Commission, a quorum having been present, having considered the testimony and the record and being otherwise fully advised in the premises,

FINDS THAT:

(1) Due public notice has been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Gulf Oil Corporation, is the operator of the Eunice Monument South Unit with horizontal limits including that acreage described on Exhibit "A" attached to this order.

(3) The applicant, seeks the upward extension of the vertical limits of the Eunice-Monument Pool to include either the top of the Grayburg formation or to a subsea datum of minus 100 feet, whichever is higher, and the concomitant amendment of the vertical limits of the Eumont

Order No. R-7767

BOOK 440 PAGE 4

Gas Pool by contracting its lower limits to either the base of the Queen formation or to a subsea datum of minus 100 feet, whichever is higher, underlying said unit.

(4) The proposed amendment of pool vertical limits is necessary to permit the applicant to successfully carry out secondary recovery operations within the full oil column underlying said unit.

(5) No party appeared and objected to the proposed amendment of vertical limits.

(6) Granting this application will serve to prevent waste and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Within the area designated as the Eunice Monument South Unit Area, as shown on Exhibit "A" attached hereto, the vertical limits of the Eumont Gas Pool are hereby amended to be from the top of the Yates formation to a lower unit described as the base of the Queen formation or 100 feet below mean sea level, whichever is higher; the geologic markers having been previously found to occur at 2747 feet and 3666 feet, respectively, in Continental Oil Company's No. 23 Meyer B-4 Well (located at 660 feet from the South line and 1980 feet from the East line of Section 4, Township 21 South, Range 36 East, Lea County, New Mexico) as recorded on the Welex Acoustic Velocity Log taken on October 30, 1962, said log being measured from a kelly drive bushing elevation of 3,595 feet above sea level.

(2) Within the area designated as the Eunice Monument South Unit Area, as shown on Exhibit "A" attached hereto, the vertical limits of the Eunice Monument Oil Pool are hereby amended to be from an upper limit described as 100 feet below mean sea level or at the top of the Grayburg formation, whichever is higher, to a lower limit at the base of the San Andres formation; the geologic markers having been previously found to occur at 3666 feet and 5283 feet, respectively, in Continental Oil Company's No. 23 Meyer B-4 well (located at 660 feet from the South line and 1980 feet from the East line of Section 4, Township 21 South, Range 36 East, Lea County, New Mexico) as recorded on the Welex Acoustic Velocity Log taken on October 30, 1962, said log being measured from a kelly drive bushing elevation of 3,595 feet above sea level.



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(3) The effective date of this order and the changes to vertical limits included herein shall be January 1, 1985.


(4) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

JIM BACA, Member

  
ED KELLEY, MEMBER

  
R. L. STAMETS, Chairman  
and Secretary



S E A L

LEA COUNTY, NEW MEXICO

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TOWNSHIP 20 SOUTH, RANGE 36 EAST, NMPM

Section 25: All  
Section 36: All

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM

Section 30: S/2, S/2 N/2, NE/4 NW/4 and  
NW/4 NE/4

Section 31: All  
Section 32: All

TOWNSHIP 21 SOUTH, RANGE 36 EAST, NMPM

Section 2: S/2 S/2  
Section 3: Lots 3, 4, 5, 6, 11, 12, 13, and  
14 and S/2  
Section 4 through 11: All  
Section 12: W/2 SW/4  
Section 13: NW/4 NW/4  
Sections 14 through 18: All  
Section 21: N/2 and N/2 S/2  
Section 22: N/2 and N/2 S/2

CASE NO. 8399  
ORDER NO. R-7767  
EXHIBIT "A"

STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

JAN 24 1985

at 9:58 o'clock AM  
and recorded in Book 440  
Page 371  
Pat Snipes, County Clerk  
By PS Deputy



4309A

# **EXHIBIT A - 8**

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

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

NOMENCLATURE  
CASE NO. 10061  
Order No. R-7767-A

APPLICATION OF CHEVRON U.S.A. INC.  
FOR POOL EXTENSION AND CONTRACTION,  
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 22, 1990, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 19th day of October, 1990, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) Division Case Nos. 10059, 10060 and 10061 were consolidated at the time of the hearing for the purpose of testimony.
- (3) The applicant, Chevron U.S.A. Inc., is the operator of the Eunice Monument South Unit Expansion Area B with horizontal limits encompassing that acreage described on Exhibit "A" attached hereto.



NOMENCLATURE  
CASE NO. 10061  
Order No. R-7767-A  
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(4) The applicant seeks the vertical extension of the upper limits of the Eunice Monument Grayburg-San Andres Pool to include either the top of the Grayburg formation or to a subsea datum of minus 100 feet, whichever is higher, and the concomitant amendment of the vertical limits of the Eumont Gas Pool by contracting its lower limits to either the base of the Queen formation or to a subsea datum of minus 100 feet, whichever is higher, underlying said area.

(5) The proposed amendment of pool vertical limits is necessary to permit the applicant to successfully carry out secondary recovery operations within the full oil column underlying said unit.

(6) No party appeared and objected to the proposed amendment of said vertical limits.

(7) Granting this application will serve to prevent waste and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Within the area designated as the Eunice Monument South Unit Expansion Area B, as described on Exhibit "A" attached hereto, the vertical limits of the Eumont Gas Pool are hereby amended to be from the top of the Yates formation to a lower limit described as the base of the Queen formation or 100 feet below mean sea level, whichever is higher; the geologic markers having been previously found to occur at 2,747 feet and 3,666 feet, respectively, in Continental Oil Company's Meyer B-4 Well No. 23 located 660 feet from the South line and 1980 feet from the East line of Section 4, Township 21 South, Range 36 East, NMPM, Lea County, New Mexico, as recorded on the Welex Acoustic Velocity Log taken on October 30, 1962, said log being measured from a Kelly drive bushing elevation of 3,595 feet above sea level.

(2) Within the area designated as the Eunice Monument South Unit Expansion Area B, as described on Exhibit "A" attached hereto, the vertical limits of the Eunice Monument Grayburg-San Andres Pool are hereby amended to be from an upper limit described as 100 feet below mean sea

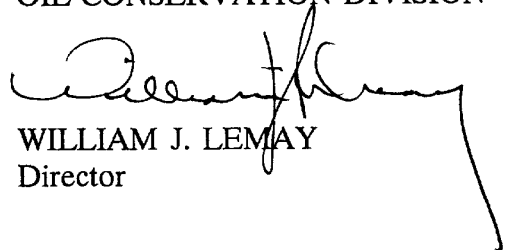
NOMENCLATURE  
CASE NO. 10061  
Order No. R-7767-A  
Page -3-

level or at the top of the Grayburg formation, whichever is higher, to a lower limit at the base of the San Andres formation; the geologic markers having been previously found to occur at 3,666 feet and 5,283 feet, respectively, in Continental Oil Company's Meyer B-4 Well No. 23 located 660 feet from the South line and 1980 feet from the East line of Section 4, Township 21 South, Range 36 East, NMPM, Lea County, New Mexico, as recorded on the Welex Acoustic Velocity Log taken on October 30, 1962, said log being measured from a kelly drive bushing elevation of 3,595 feet above sea level.

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
WILLIAM J. LEMAY  
Director

S E A L

CASE NO. 10061  
DIVISION ORDER NO. R-7767-A  
EXHIBIT "A"

TOWNSHIP 20 SOUTH, RANGE 36 EAST, NMPM

- Section 10: E/2 E/2
- Section 11: W/2 NE/4, W/2, SE/4
- Section 13: W/2, S/2 SE/4
- Section 14: All
- Section 15: NE/4 NE/4
- Section 23: All
- Section 24: N/2, SW/4, W/2 SE/4

ALL IN LEA COUNTY, NEW MEXICO

EXHIBIT A-9

GB. LEASE NO. B-1641.

#7192

No. 30: RECEIVED: STATE LAND OFFICE: Santa Fe, N.M. at 2:12 P.M. Feb 11, 1933. APPLICATION No. B-1641.

OIL AND GAS LEASE.

THIS AGREEMENT, dated this the 21st day of January, A.D. 1933, made and entered into by and between the STATE OF NEW MEXICO, acting by and through the undersigned, its Commissioner of Public Lands, thereunto duly authorized, party of the first part and hereinafter called the "Lessor", and DEVONIAN OIL COMPANY, Box 1379, Tulsa, Oklahoma, party of the second part, hereinafter called the "Lessee", whether one or more,

WITNESSETH:

WHEREAS, the said lessee has filed in the office of the Commissioner of Public Lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment being not less than the amount required by law and by the rules and regulations of the New Mexico State Land Office; and

WHEREAS, all of the requirements of law relative to said application and tender have been duly complied with and said application has been approved and allowed by the Commissioner of Public Lands:

THEREFORE, for and in consideration of the premises as well as the relinquishment of Assign. No. 1, Lease A-1461, dated December 17, 1928, no cash payment being required, 106479, and of the further sum of \$5.00 filing fee, and of the covenants and agreements hereinafter contained on the part of the lessee to be paid, kept and performed, the said lessor has granted and demised, leased and let, and by these presents does grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil and/or gas thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights of way, easements and servitudes for pipe lines, telephone and telegraph lines, tanks, power houses, stations, gasoline plants, and fixtures for producing, treating and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary, incident to or convenient for the economical operation of said land, for oil and gas, with right for such purposes to the free use of oil, gas, casing-head gas, or water from said lands, but not from lessor's water wells, and with the right of removing either during or after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the conditions hereinafter set out, the following described land situate in the County of Lea, State of New Mexico, and more particularly described as follows:

LINE:	INSTITUTION	SEC.	TWP	RANGE	S U B D I V I S I O N				ACRES
					COLUMN 1:	COLUMN 2:	COLUMN 3:	COLUMN 4:	
1	Lieu	5	21S	36E	38.91 Lot 1	39.10 Lot 2			78.01
2.	"	"	"	"	39.28 Lot 3	39.47 Lot 4	40.00 Lot 5	40.00 Lot 6	158.75
TOTAL-----									236.76

Said lands having been awarded to lessee and designated as tract No. \_\_\_ at a public sale held by the Commissioner of Public Lands on \_\_\_\_, 19\_\_, (To be filled in only where lands are offered at public sale.)

TO HAVE AND TO HOLD said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term until December 17, 1933, from the date hereof, and as long thereafter as oil and gas in paying quantities, or either of them is produced from said land by the lessee, subject to all of the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one-eighth part of the oil produced and saved from the leased premises, or the cash value thereof, at the option of the lessor, such value to be price prevail



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ing the day oil is run into a pipe line, if the oil be run into a pipe line, or into storage tanks, if the oil be stored.

2. The lessee agrees to pay the lessor the one-eighth of the net proceeds derived from the sale of gas from each gas well; If casing-head gas produced from said land is sold by the lessee, the lessee shall pay the lessor as royalty one-eighth of the net proceeds of said sale; if casing-head gas produced from said lands is utilized by the lessee otherwise than for carrying on the lessee's operations for producing oil or gas from said lands, then the lessee shall pay the lessor the market value in the field, the equal of one-eighth part of the casing head gas so utilized at the time of such utilization.

3. Lessee agrees to make full settlement on the 20th day of each month for all royalties due the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours, to examine lessee's books relating to the production and disposition of oil and gas produced. The lessee also agrees to submit to the lessor, for each and every royalty payment, a correct statement showing the amount of oil or gas produced and saved since his last report and the market value thereof. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. It is expressly agreed that the consideration hereinbefore specified is a good, valid and substantial consideration and sufficient in all respects to support each and every covenant herein, including specifically the option granted the lessee to prevent the termination of this lease from year to year, by the payment or tender of the further rental hereinafter provided for.

An annual rental, at the rate of fifty cents per acre shall also become due and payable to the lessor by the lessee, or by any transferee or assignee of the same, or any part hereof where such transferee or assignee has been recognized, and such transfer or assignment approved by the lessor as hereinafter provided, upon each acre of the land above described and then claimed by such lessee, transferee or assignee hereunder, and the same shall be due and payable in advance to the lessor on the 17th day of December in each year during the time this lease is in force, but the annual rental on any assignment shall in no event be less than six Dollars (\$6.00).

V In event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the Commissioner a duly executed release thereof and in event said lease has been recorded then he shall upon request furnish and deliver to said Commissioner a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the State of New Mexico, acting by its Commissioner of Public Lands, or other authorized officer, all amounts then due as provided herein and the further sum of Ten Dollars (\$10.00), surrender and cancel this lease, insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law or equity by the lessee, lessor, or any assignee, to enforce this lease, or any of its terms express or implied.

6. All payments due hereunder shall be made on or before the day such payment is due, in cash or by certified exchange at the office of the Commissioner of Public Lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor, shall have the right to assign this lease in whole or in part, provided, however, that no assignment of any undivided interest in the lease or in any part thereof nor any assignment of less than a legal subdivision shall be

recognized or approved by the lessor, Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tract, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. Lessee agrees, with reasonable diligence, to offset all paying oil or gas wells drilled, within 300 feet of any of the land covered by this lease and retained hereunder.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when required to do so by the lessor, If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operation shall be commenced on any such lands so sold unless and until the lessee or his assignee shall have filed a good and sufficient bond with the lessor as required by law to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any non-productive well when lessor deems it to be in the interest of the State of New Mexico to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agrees to pay for all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by lessor, the lessee shall bury pipe lines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of paragraph 10 above.

13. Upon failure or default of the lessee or any assignee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee or assignee so defaulting, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee, or assignee so defaulting, by registered mail, addressed to the post-office address of such lessee or assignee as shown by the records of the State Land Office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within 30 days from the date of mailing said notice the said lessee or assignee shall remedy the default specified in said notice, cancellation shall not be made.

14. All the terms of this agreement shall extend to and bind the heirs, executors, administrators, successors and assigns of the parties hereto.



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15. If the lessee shall have failed to make discovery of oil and/or gas in paying quantities during the primary term hereof, the lessee may continue this lease in full force and effect for an additional term of five years and as long thereafter as oil and gas in paying quantities, or either of them is produced from the leased premises, by paying each year in advance, as herein provided, double the rental provided herein for the primary term, or the highest rental prevailing at the commencement of the secondary term in any rental district, or districts in which the lands, or any part thereof, may be situated, if it be greater than double the rental provided for the primary term. (This paragraph (15) shall not be inserted in any lease issued pursuant to the provisions of Section 3 (132-403) of this Act.)

IN WITNESS WHEREOF, the party of the first part has hereunto signed and caused its name to be signed by its Commissioner of Public lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year first above written.

(State Land Office Seal)  
ATTEST: Geo. B. Foster, Secretary.

STATE OF NEW MEXICO  
By: Frank Vesely, COMMISSIONER OF PUBLIC LANDS, Lessor.

DEVONIAN OIL COMPANY,  
By: L.C. Ritts, vice Pres (Seal)  
Lessee.

Distributed this the 14th day of February, 1933.

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF OKLAHOMA }  
COUNTY OF TULSA } SS

On this the 8th day of February, 1933, personally appeared L.C. Ritts, to me personally known, who being by me duly sworn did say that he is the Vice-President of Devonian Oil Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said L.C. Ritts acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

(Notarial Seal) My Commission expires: October 15th, 1933. H.E. Geiger, Notary Public.

STATE OF NEW MEXICO }  
COUNTY OF LEA } SS

FILED FOR RECORD MAR 9, 1933 at 2:20 o'clock, P.M. and recorded in Book 24, page 331.

(County Clerk's Seal)

B.B. Barnes, County Clerk.

By: L.M. Balckmon, Deputy.

COMPARED

GB. LEASE NO. B-1640.

#7193.

OIL AND GAS LEASE.

N-32: RECEIVED: STATE LAND OFFICE: Santa Fe, N.M. FEB 11, 1933 at 2:12 P.M.: APPLICATION NO. B-1640:

THIS AGREEMENT, dated this the 21st day of January, A.D. 1933, made and entered into by and between the STATE OF NEW MEXICO, acting by and through the undersigned, its Commissioner of Public Lands, thereunto duly authorized, party of the first part and hereinafter called the "Lessor", and Devonian Oil Company Box 1379, Tulsa, Oklahoma, party of the second part, herein after called the "Lessee", whether one or more,

WITNESSETH:

WHEREAS, the said lessee has filed in the office of the Commissioner of public lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment being not less than the amount required by law and by the rules and regulations of the New Mexico State Land Office; and