

Initial Partner Deal Structure

XXX E&P seeks a Partner to invest \$40 MM to fund a new company (Newco) to acquire leases, perform the requisite engineering, and legal work to bring XXX's prospect portfolio to a "drill ready" state. The prospects, people, assets, and strategies are in place to build a substantial company in a very short time frame.

In parallel:

1. The Newco's land group will purchase new leases on all prospects.
2. Newco's engineering group will perform all requisite engineering work.
3. The legal team will perform all permitting, title and unitization work required for the preparation of the drilling of the first 30 prospects.

Newco with all pre-drill work finished, wells permitted and operations staff in place would be an extremely attractive investment opportunity for a DrillCo or large funding source to invest drilling and development monies.

Newco shall within 12 months, perform a secondary capital raise of a \$250 MM to fund the drilling and development of the 30 Prospects, and/or multiple Follow-On Prospects. Partner shall have a FROR to fund this 2nd Round financing at preferential terms prior to Newco's fund raise.

Use of Capital:

<u>ITEM</u>	<u>Cost (MM\$)</u>
Lease acquisition costs (including landman costs)	19.50
Partial reimbursement of seismic costs	14.30
Engineering ("Partners in Drilling" consultants)	1.45
Actual overhead cost of technical, accounting, land staff (18 mo.)	2.50
Outside legal cost (including drill-site title opinions)	1.50
Permitting, bonding and unitization	.50
2 nd Round Financing Costs (travel, promotional materials, etc.)	<u>.25</u>
Total	\$40 MM

Procedure – Transform Prospect Portfolio into “Drill Ready State” (9 -12 mo.):

- a. **Leasing**: The mineral title work has been largely completed. We will secure new 5 year or 3 year primary term with 2 year extension options on all Prospects . All leases will be recorded at the appropriate courthouses in Newco’s name. Newco will lease ~58,060 net acres on the 30 Prospects. The Follow-On Prospects contain an aggregate 15,640 net acres and will only be leased after initial discoveries are made.
- b. **Drilling, Engineering and Operations**: Engage well known certified drilling company “YYY” (name withheld at this point) to manage all drilling, development, and field operations. YYY along with XXX’s technical staff will perform well designs, drilling/ completion AFE’s, negotiate drilling rig/service company contracts and procurement and all other engineering work necessary for the drilling, completion and facilities work necessary to bring the wells online to sales.
- c. **Legal and Permitting**: Prepare abstracts and have the title attorneys perform drill-site title opinions and perfect title to the drilling units on all prospects. We will secure all drilling, bonding, registrations, and other permits necessary for unitization and the drilling of the test wells.
- d. **Seismic Reimbursement**: XXX has expended \$18.3 MM on seismic data (3,813 miles of 2D and 1,258 sq. mi. of 3D seismic data) on our Prospects. In addition, we have acquired \$50.15 MM of 3D seismic data at no cost. Not including overhead expenses (~\$8.8 MM), XXX has expended \$40.1 MM on the project. The land and lease costs are sunken and shall not be reimbursed. XXX has > \$2 MM of mineral title work already completed and this shall be contributed. XXX shall be reimbursed \$14.31 MM for the Phase I, II and Follow-On Prospects (> 40 Prospects).

The concept is to package up Newco with its people, operations staff and ready to drill fully permitted prospects with a “ribbon around it” making it extremely attractive for promotion to a DrillCo Fund, oil and gas company, private equity group, sovereign wealth fund, institutional or other financial investors.

Second Round Financing (within 9-12 months)

Once the portfolio is all leased and permitted with all engineering and legal work completed, we will then market the Newco and its prospects.

We will secure a \$250 MM investment from a 2nd round Investor Group (oil and gas co., private equity funds, family offices, wealthy individuals, pension funds, foreign multinationals, sovereign wealth funds, institutional investors, etc.). The monies will be used to fund the drilling and development of 30 Phase I Prospects.

Expected Promotion from 2nd Round Financing

A new structure currently gaining momentum is the “DrillCo” which would yield XXX/Partner an 80% APO interest. At a minimum XXX expects to receive a 25% carried or back in working interest from the 2nd round Investor Group. Other financing structures from the 2nd round investor group will allow XXX/Partner to achieve an equity interest between these two cases (see attached spreadsheet).

Drilling and Development

Once funded, Newco using YYY for operations will prosecute the drilling and development of the 30 Prospects and Follow-On drilling/development opportunities. The initial drilling program is estimated to take 18-24 months.

Newco Deal Structure:

- a. Partner and XXX shall each own 50% of the Newco.
- b. Partner shall be entitled 100 % of all upfront cash received.
- c. Partner shall receive 100% of all revenues from oil, gas condensate, NGL’s and plant liquids sold from all producing properties until Partner receives its initial capital commitment (\$40MM).

- d. Partner shall receive 100% of all asset sales, oil and gas discoveries or interests sold by Newco until the Partner receives their initial capital commitment back (\$40 MM).
- e. Upon Partner receiving back its initial \$40 MM, Partner and XXX shall receive 50% each of all assets sales and producing property revenues.
- f. All leases with have a 75% NRI delivered to the Newco.

For example - 2nd Round financing is a DrillCo structure:

The 2nd Round Investor receives 80% and the Newco receives 20% until the Investor recoups all funds and a 15% IRR, then the Investor owns 20% and Newco receives 80%.

The Partner receives Newco's full 20% interest until their \$40 MM is recouped then Partner receives 50% of Newco's interest or 10% BPO. After the 2nd Round investor has achieved his 15% IRR, Partner would own a net 40% interest in the entire venture.

Asset Sales - Come along Rights

Partner and XXX shall each have come- along rights to any sales of interests (CWI, BIWI, Newco Interest, etc.). If either party receives an offer to sell its interest in a group of producing assets, then each party shall have a right but not the obligation to sell proportionately.

Monetization

As discoveries are made in Newco I and/or Newco II, XXX and the Partner will receive their proportionate share of revenues from its ownership of the oil and gas properties, its carried Working Interest (CWI) or Back in Working Interest received from the second round financing.

Newco will receive its proportionate share of monthly distributions from all oil, gas, condensate, NGL's and plant products produced.

Newco can accelerate monetization by selling all or a portion of its WI in one or more new field discoveries at any time after the initial well is successful. Fully developed assets enjoy the highest prices. Options include:

- a. Sell individual discoveries, producing properties, and/or other assets.
- b. Sell an undivided interest in all or some off the producing properties
- c. Sell an interest in the Newco I and/or II
- d. Sell Newco I and/or II through a cash sale, merger, or IPO.

Partner's Participation Option and First Rights of Refusal

Prior to this 2nd Round financing (9-12 mo.) the Partner has the following options:

Option I - FROR to participate in the Phase I drilling and development

Prior to Newco securing the 2nd Round Financing, Partner may elect to fund \$250 MM to drill the 30 Prospects or to participate for an undivided interest.

Option II – FROR to fund Acquisition of the Follow-On Prospects

We fully expect the 2nd Round Investor group to acquire and drill the Follow-On Prospects to discoveries made from their initial drilling. After a discovery on one or more of the initial prospects, the risk of drilling the analog prospects is substantially reduced making them extremely attractive to drill and develop.

However, if for whatever reason the 2nd Round Investor elect not to acquire the leasehold and drill and develop these Follow On Prospects, then the Partner will have a FROR to fund the acquisition (leasing, permitting, legal, and engineering) of the these Follow-On Prospects to bring them to a “Drill Ready” position. Partner shall receive their monies back first and then 50% of the retained interests from the promotion of the Follow-On Prospects.

Option III - FROR to participate in the Follow-On Prospect's Drilling

Prior to Newco securing the drilling and development financing for any undrilled Follow-On Prospects, Partner has the right to fund the drilling and development of these Prospects or to participate for an undivided interest.

Deal Terms – If Partner elects to participate in drilling the prospect portfolio

In the event the Partner elects to participate for an interest in the drilling and development of the 30 Prospect Portfolio, and/or the drilling of the Follow – On Prospects then XXX shall be entitled to a proportionately reduced carried 25% working interest (WI) derived from the Partner’s participation interest.

The option to participate and the FROR gives the Partner an option to examine the following items prior to making an investment decision:

- Natural gas prices
- The macroeconomics of the investment environment.
- The technical merits of the prospect portfolio completely assembled.
- The Partner’s philosophy and interest in development of these properties.

The FROR is a “**call option**” to drill the prospect portfolio or percentage desired and/or be in a carried interest position equal to ours with a preferential payout.

The investment economics are very attractive as seen on the Partner’s Economics attached. The deal structure together with the FROR makes this proposal an attractive proposition with almost no financial risk, substantial ROI and valuable options that can exercised a year from now.

If the Partner choose to do nothing, they should easily recover all monies from the retained interests from just 1-2 discoveries.

Outline - Newco Deal Structure

Initial Investment \$40 MM (with no further capital contributions)

Form Newco to build an elite USA Onshore Conventional E&P Co. with a large portfolio of large-giant reserve, high quality, modest risk, onshore oil and gas prospects. The monies will be used for the following:

1. Purchase new leases - 3-5 year primary term with a 75% NRI.
2. Reimburse a portion of the actual seismic monies expended to date.
3. Perfect mineral title and perform drill site title opinions.
4. Secure permits on all drilling locations and prepare all prospects to drill test wells.
5. Perform all drilling engineering including well designs, drilling and completion AFE's
6. Negotiate all drilling rig, service company contracts and materials procurement.
7. Execute a 2nd round financing to raise drilling and development monies.

Second Round Financing

Upon completion of all leasing, legal, permitting and engineering work described above on the 30 Prospects, we will secure a large capital source (2nd round Investor) to invest \$250 MM to drill, complete and test the 30 Prospects. Newco expects to retain at substantial CWI or BIWI on all prospects from the Second Round Financings.

Deal Terms

1. Partner shall own 50% of Newco.
2. Partner shall receive 100% of all upfront cash, oil and gas revenue and assets sales until its investment of \$40 MM is paid back.
3. After payout, Partner shall receive 50% of all revenue and sales.

First Right of Refusal

1. Prior to Newco's 2nd Round Financing for the 30 Prospects, Partner shall have a FROR to expend \$250 MM to drill and development the 30 Prospects. Partner pays 100% of the costs for drilling and development and receives 75% working interest.
2. Partner has FROR to fund the acquisition of any Follow-On Prospects for 100 % BPO and 50% APO of Newco's retained interest.
3. Prior to Newco's raising the funds to drill the Follow-On Prospects which were not funded by the \$250 MM 2nd Round Investor, Partner shall have a FROR to fund the drilling and development of these Follow-On Prospects. Partner pays 100% of the costs for drilling and development and receives 75% working interest.