

RAILROAD COMMISSION OF TEXAS

OIL & GAS DOCKET NO. 10-0316166 REGARDING W.O. OPERATING COMPANY'S
(OPERATOR NO. 935428) CHAPTER 11 BANKRUPTCY AND SB ENERGY 1, LLC'S
PURCHASE OF W.O. OPERATING COMPANY'S ASSETS IN DISTRICT 10,
PURSUANT TO THE COMMISSION'S CONDITIONS

AMENDED AGREED ORDER

On this day, the above-entitled and numbered docket came for consideration by the Railroad Commission of Texas ("Commission"). The Commission agreed to amend the informal disposition of the matters between W.O. Operating Company ("W.O. Operating" or "Debtor"), SB Energy 1, LLC ("Buyer"), and Large Operating, LCC ("Operator") under this docket through this Amended Agreed Order. The Commission is authorized to informally dispose of this contested case pursuant to Texas Government Code § 2001.056.

IN SETTLEMENT OF THIS DOCKET, the Commission, W.O. Operating, Buyer, and Operator (collectively, the "Parties") do hereby agree as follows:

This Amended Agreed Order sets forth the terms and conditions of the agreement between W.O. Operating and the Commission in connection with W.O. Operating's Chapter 11 bankruptcy case, which is being jointly administered in the United States Bankruptcy Court for the Northern District of Oklahoma (the "Court") under the caption of In re Nichols Brothers, Inc., et al., No. 18-11123-M ("Chapter 11 Case"). In connection with the Chapter 11 Case, W.O. Operating seeks to sell 72 leases ("Leases") containing 795 wells to Buyer. This Agreed Order sets forth the conditions required of Buyer to operate those assets. Buyer will establish a new Commission-approved operator, Large Operating, LLC, in connection with its agreements with the Commission.

I. Agreements Between W.O. Operating and Buyer

1.1 W.O. Operating will file a motion seeking to sell substantially all its assets under the terms of the Asset Purchase Agreement dated October 19, 2018, as amended (hereinafter, "APA") pursuant to § 363 of the Bankruptcy Code (hereinafter, the "§ 363 Motion").

II. Agreements Between Buyer and the Commission

2.1 As part of the purchase, and as a condition of the Commission's approval of the same, Buyer and Commission will take the following action prior to the closing of the sale under the APA:

- a. Operator will obtain financial assurance to secure a Form P-5 Organization Report ("Form P-5") in the amount of \$250,000 pursuant to 16 Texas Administrative Code § 3.78.
- b. Richard Sands will be listed as an officer or director on the Operator's Form P-5 on file with the Commission, unless and until the Commission consents in writing to any changes to the Form P-5.
- c. Buyer or Operator shall submit a dual-signature Form P-4 Producer's Transportation Authority and Certificate of Compliance ("Form P-4") transfer of operator form for each of the 72 leases (the "Leases") being sold by W.O. Operating to Buyer under the APA in the name of the Operator. Buyer or Operator shall submit the P-4 transfer packets at least five days before the closing of the sale under the APA.
- d. Given the unique facts and circumstances in this case, as part of the dual signature P-4 transfer packets, the Commission shall accept the Operator's affidavit of a "good-faith claim" to title. The Commission is not challenging the validity of the Leases. In the event that a third-party with standing desires to contest the "good-faith claim" to title, the Commission shall open a docket to be presided over by an Administrative Law Judge with the Commission's Hearings Division and the Operator will be required to supplement the evidence beyond the above-referenced affidavit to prove a good-faith claim to operate the Leases.
- e. Buyer/Operator agrees that it shall not submit a Form P-4 to change the operator for any of the Leases for a period of 18 months after the closing date of the APA ("Closing").
- f. Buyer and/or Operator must comply with all rules and regulations of the Commission. Buyer and/or Operator will remedy any existing severance issues within all applicable time periods as may be extended in writing by the Commission. The Commission will provide extensions with respect to any H-15 severance issues upon the approval of a reasonable submitted plan which identifies the course of action the Operator will take to bring the wells

into compliance regarding any H-15 severance issues (the "Work Plan"). The Operator may seek subsequent extensions of the compliance deadlines upon a showing of the progress made under the previously approved Work Plan, such extensions not to be unreasonably withheld. A failure to timely request the extension, via email or in writing, shall result in severance fees for all outstanding leases not in compliance. Buyer and/or Operator will have six months following Closing to comply with W3-C surface requirements. Any sale order in conjunction with this Agreed Order is subject to the terms in Exhibit A.

- g. The Commission will not assert the penalties addressed in Section III, 3.1(a)-(b) ("Pre-Closing Claims") against Operator. Those penalties represent the outstanding balance of the penalties assessed against W.O. Operating for false-filing violations and estimated penalties under 16 Texas Administrative Code sec. 3.14(b)(2) for failure to plug inactive wells. The Buyer/Operator acknowledges that, notwithstanding this provision, it must comply with all applicable rules, regulations, and statutes after Closing, including, but not limited to, fines or penalties assessed after Closing.
- h. Closing, Buyer/Operator will obtain a Commission-approved bond or letter of credit (the "Additional Financial Assurance"), in the amount of \$2,000,000 consistent with Rule 3.15(f)(2)(B)(iii); however, this Additional Financial Assurance cannot be a cash deposit. Absent the Commission's written consent, the Operator shall maintain the Additional Financial Assurance in place for two years following the Closing. After the two-year period, Buyer/Operator shall be able to remove the Additional Financial Assurance absent Commission consent so long as Buyer/Operator satisfies the applicable rules and regulations that do not require the Additional Financial Assurance. The Operator may continue the plugging extension for all inactive wells so long as the Additional Financial Assurance remains in force and effect and the Operator remains in compliance with applicable laws and regulations; this Agreed Order requires Buyer/Operator to obtain a Form P-5, obtain \$250,000 in financial assurance, transfer the 72 dual signature Form P-4 transfers, and maintain the Additional Financial Assurance as set forth herein.
- i. If the Operator or a related entity obtains a lease of the Fee -244- (00106) Lease within five years from the date of Closing, Operator agrees to assume all plugging and environmental liability associated with the Fee Lease.

III. Agreements Between W.O. Operating and the Commission

3.1 Upon W.O. Operating's filing of the § 363 Motion and Buyer meeting each of the obligations required by the Commission under this Amended Agreed Order, W.O. Operating and

the Commission will settle and resolve all disputes between them in the Chapter 11 Bankruptcy as follows:

- a. The Commission will have an allowed general unsecured claim in the amount of \$10,208.35 for all pre-petition obligations owed to the Commission that are not in the nature of fines and penalties;
- b. The Commission will have an allowed unsecured claim in the amount of \$4,130,392 for all pre-petition fines and penalties owed to the Commission, which the Commission will agree to subordinate pursuant to the policy rationale of § 726(a)(4) of the Bankruptcy Code;
- c. Within 60 days of Closing, W.O. Operating will dismiss its bankruptcy case, unless prior to the dismissal date, Debtor files a § 363 motion to sell the Fee Lease. Dismissal will be stayed pending a hearing on a motion to sell the Fee Lease, but should occur no later than May 1, 2019, unless otherwise agreed to in writing by the Commission. Within five days of the dismissal of the bankruptcy of W.O. Operating, the Railroad Commission shall dismiss the Adversary Proceeding No. 18-1041-M filed against W.O. Operating by the Commission, without prejudice.

3.2 This agreement between W.O. Operating and the Commission will be incorporated into a Rule 9019 Motion to settle and compromise and will be subject to approval by the Court in the Chapter 11 Case. The Rule 9019 Motion would be heard on the same day as the § 363 Motion.

Closing

The Parties shall coordinate the Closing of the APA Sale to occur at the same time as the approval of the transfer of the 72 dual-signature Form P-4s by the Commission. If Buyer/Operator does not complete any of the above-mentioned provisions, specifically: 1) obtaining a valid Form P-5 application, 2) obtaining the \$250,000 Operator's Bond, 3) obtaining the \$2,000,000 Additional Financial Assurance, and 4) submitting the 72 Form P-4 packets to the Commission at least five days in advance of the Closing, the Commission will notify the Parties of any deficiencies no less than 48 hours in advance of the scheduled Closing. If Buyer or Operator do not submit satisfactory paperwork for the transfer of the 72 Leases, the Closing will not occur as scheduled until all such deficiencies are corrected. Closing of the transaction shall occur no later than 10 days from the entry of the order of the Bankruptcy Court approving the Rule 9019 Motion.

Nothing in this agreement affects the Debtors' liabilities, if any, to the Commission with respect to the related bankruptcy cases of NBI Services, Inc. (18-11125) or Red Water Resources, Inc. (18-11127).

IN WITNESS WHEREOF, the Parties hereto have executed this Agreed Order as of the date set forth below.

W.O. OPERATING COMPANY, LTD.

By: 

Name: Richard J. Nichols

Title: President

Date: January 11, 2019

SB ENERGY 1, LLC

By: 

Name: Richard Sands

Title: Authorized Representative

Date: January ^{14th}, 2019

LARGE OPERATING, LLC

By: 

Name: Richard Sands

Title: Authorized Representative

Date: January ^{14th}, 2019

Done in Austin, Texas on January 23, 2019.

RAILROAD COMMISSION OF TEXAS

Christi Craddick

CHAIRMAN CHRISTI CRADDICK

Ryan Sitton

COMMISSIONER RYAN SITTON

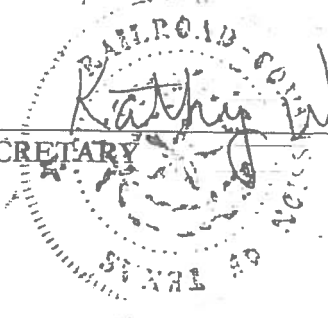
Wayne Christian

COMMISSIONER WAYNE CHRISTIAN

ATTEST:

Kathy Way

SECRETARY

The seal of the Railroad Commission of Texas is circular. It features a central emblem with a train and a gear. The words "RAILROAD COMMISSION OF TEXAS" are written around the perimeter of the seal.