IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
CHAPARRAL ENERGY, INC., *et al*.,	:	Case No. 16-11144 (LSS)
Debtors.[1]	:	Jointly Administered
	:	**Bid Procedures Hearing Date: Mar. 9, 2017 at 10:00 a.m. (ET)** **Bid Procedures Obj. Deadline: Mar. 2, 2017 at 4:00 p.m. (ET)** **Sale Hearing Date: TBD** **Sale Obj. Deadline: TBD**

DEBTORS' MOTION FOR ENTRY OF ORDERS (I) ESTABLISHING BIDDING AND SALE PROCEDURES; (II) APPROVING THE SALE OF ASSETS; AND (III) GRANTING RELATED RELIEF

The above-captioned debtors and debtors in possession (collectively, the "**Debtors**") hereby file this *Motion for Entry of Orders (I) Establishing Bidding and Sale Procedures; (II) Approving the Sale of Assets; and (III) Granting Related Relief* (the "**Motion**"), and in support respectfully state as follows:

JURISDICTION AND VENUE

1. The Court has jurisdiction to consider this Motion under 28 U.S.C. §§ 157 and 1334, and the *Amended Standing Order of Reference* from the United States District Court for the District of Delaware, dated as of February 29, 2012. This is a core proceeding under 28 U.S.C. § 157(b). Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicates for the relief requested herein are sections 105(a), 363, 365, 503, and 507 of title 11 of the United States Code (the "**Bankruptcy Code**"), rules 2002, 6004, 6006, 9013, and 9014

[1] The Debtors in these cases, along with the last four digits (or five digits, in cases in which multiple Debtors have the same last four digits) of each Debtor's federal tax identification number, are: CEI Acquisition, L.L.C. (1817); CEI Pipeline, L.L.C. (6877); Chaparral Biofuels, L.L.C (1066); Chaparral CO2, L.L.C. (1656); Chaparral Energy, Inc. (90941); Chaparral Energy, L.L.C. (20941); Chaparral Exploration, L.L.C. (1968); Chaparral Real Estate, L.L.C. (1655); Chaparral Resources, L.L.C. (1710); Green Country Supply, Inc. (2723); and Roadrunner Drilling, L.L.C. (2399). The Debtor's address is 701 Cedar Lake Blvd., Oklahoma City, OK 73114.

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of the Federal Rules of Bankruptcy Procedure (the "**Bankruptcy Rules**"), and Rule 6004-1 of the *Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware* (the "**Local Rules**").

2. The Debtors confirm their consent pursuant to Local Rule 9013-1(f) to the entry of a final order by the Court in connection with this Motion to the extent that it is later determined that the Court, absent consent of the parties, cannot enter final orders or judgments in connection herewith consistent with Article III of the United States Constitution.

PROCEDURAL BACKGROUND

3. On May 9, 2016 (the "**Petition Date**"), the Debtors filed voluntary petitions in the Court commencing cases for relief under Chapter 11 of the Bankruptcy Code (the "**Chapter 11 Cases**"). The Debtors continue to manage and operate their businesses as debtors in possession pursuant to Bankruptcy Code Sections 1107 and 1108. No trustee or examiner has been requested in the Chapter 11 Cases, and no committees have been appointed.

4. Additional information regarding the Debtors and these Chapter 11 Cases, including the Debtors' business, organizational structure, financial condition, and the reasons for and objectives of these Chapter 11 Cases, is set forth in the *Declaration of Mark A. Fischer, Chief Executive Officer of Chaparral Energy, Inc., in Support of Chapter 11 Petitions and First Day Pleadings* [Docket No. 14], incorporated herein by reference (the "**Fischer Declaration**").

5. The Debtors have recently filed their *Joint Plan of Reorganization for Chaparral Energy, Inc. and its Affiliate Debtors under Chapter 11 of the Bankruptcy Code* [Docket No. 783] (the "**Plan**"), and their confirmation hearing is scheduled for March 9, 2017. In order to maximize the value of the assets that are the subject of this Motion, the Debtors intend to pursue a bidding and auction process extending over several weeks, which will likely result in the closing of a sale (the "**Sale**") occurring after the effective date of the Plan (the "**Plan Effective**

Date"). Furthermore, because the Motion contemplates selling interests of co-owners in certain of the assets pursuant to section 363(h) of the Bankruptcy Code, the Debtors intend to initiate adversary proceedings against all such co-owners as required by Bankruptcy Rule 7001(3) (the "**Adversary Proceeding**"). Since the Adversary Proceeding will almost certainly be pending and unresolved as of the Plan Effective Date, the Debtors are requesting that the Court retain jurisdiction to hear all matters related to or arising under or in connection with the Adversary Proceeding, this Motion, the bidding procedures, and the Sale to ensure that the Debtors and the Reorganized Debtor obtain the highest and otherwise best price possible under the circumstances.[2]

THE ASSETS, THE 363(H) SALE PROCESS, AND THE RELATED ADVERSARY PROCEEDING

A. The Debtors' CO2 Operations.

6. The Debtors are engaged in carbon dioxide ("**CO2**") enhanced oil recovery ("**EOR**") at various wells they operate in the State of Oklahoma. To recover oil and gas through EOR, the Debtors often contract with, and obtain CO2 from, fertilizer plants since CO2 is an operational by-product of the fertilizer industry. When CO2 is created by the fertilizer plant, the Debtors or another party compress the CO2 and send the gas through a pipeline to one or more of the Debtors' depleted wells to assist in the recovery of oil and gas at the wells. This process is called "flooding", and it is almost exclusively used to recover oil and gas from mature wells that were previously considered near depletion. Absent a constant supply of CO2, it is normally not economical to extract oil and gas from such depleted wells.

[2] For the avoidance of doubt, the Debtors note that the consummation of the sale contemplated by this Motion is not a condition precedent to the occurrence of the Plan Effective Date. As such, the Debtors request that the relief sought in this Motion apply to both the Debtors and the Reorganized Debtors so that the Reorganized Debtors may consummate the Sale in these Chapter 11 Cases.

B. The Assets.

7. The Debtors currently own an interest in the Velma Pipeline that runs from a fertilizer plant owned by Koch Fertilizer, L.L.C. ("**Koch**", and such fertilizer plant, the "**Koch Fertilizer Plant**") in Garfield County, Oklahoma to Stephens County, Oklahoma, as described in greater detail on Exhibit F attached hereto (such pipeline and related assets, collectively, the "**Assets**" or the "**Pipeline**"). The Assets are used to transport CO2 from the Koch Fertilizer Plant to (i) a "unit" (explained in greater detail below) wholly owned and operated by the Debtors known as the Northwest Velma Hoxbar Unit (the "**Hoxbar Unit**"), (ii) a unit formerly owned and operated by the Debtors known as the East Velma West Block Sims Sand Unit (the "**Velma Unit**"),[3] and (iii) two units (known as the Purdy Unit and the Bradley Unit) owned and operated by Merit Energy Company ("**Merit**", and the Purdy Unit and the Bradley Unit, together, the "**Merit Units**"). Although the Pipeline is currently being used to transport CO2, the Pipeline bisects two of the most active North American oil plays—the STACK and SCOOP plays in central Oklahoma—making it ideally situated and, in turn, extremely valuable for transporting oil.

8. Under Oklahoma law, "units" are distinct legal entities established by a state agency, which cover a specified geographic area for the purposes of oil and gas exploration and production by a single well or series of wells. Each unit has an operator, which controls all EOR activities within the unit, who is generally the entity that owns the greatest amount of working interests located within the unit. If a working interest owner does not have working interests

[3] The Debtors sold most of their interests in the Velma Unit to Limerock Resources II-A, LP ("**Limerock**") on April 4, 2012, but such sale excluded the Debtors' interest in the Assets. The Velma Unit is now owned and operated by Limerock, but CO2 is no longer transported to the Velma Unit. Accordingly, the Debtors still retain a joint ownership interest in the Assets relating to the Velma Unit despite no longer being the operator of the Velma Unit.

covering all of the acres in a unit, the working interest owner becomes a co-tenant with other working interest owners in the unit with regard to the oil and gas to be produced.

9. As described in greater detail below, the Assets are jointly owned by (i) Chaparral CO2, L.L.C. ("**Chaparral CO2**"), a debtor in these Chapter 11 Cases, (ii) Merit, and (iii) several other third parties that hold working interests in the Merit Units or the Velma Unit[4] (such other third parties and Merit, collectively, the "**Other Joint Interest Owners**"). Upon information and belief, Chaparral CO2 and Merit own the vast majority of the Pipeline, with the non-Merit Other Joint Interest Owners collectively owning less than 10% of the Pipeline.

10. The Assets consist of two segments of pipeline, each of which is jointly owned by several parties:

(a) Segment A is 118 miles of eight inch diameter pipe running from the Koch Fertilizer Plant to the Purdy and Bradley Units in southern Grady County, Oklahoma (the "**Merit Units**"). It is jointly owned by Merit, certain Other Joint Interest Owners,[5] and Chaparral CO2.

(b) Segment C[6] is 23.7 miles of six inch diameter pipe extending from the junction of Segment A and Segment B south to the Velma Unit and the Debtors' Hoxbar Unit, both located in Stephens County, Oklahoma. Segment C is jointly owned by the Debtors and certain Other Joint Interest Owners in the Velma Unit.

11. At its northern end, the Pipeline connects to the Koch Fertilizer Plant in Enid, Oklahoma, which delivers CO2 to the units to the south. At all relevant times, Merit purchased 100% of the CO2 produced by the Koch Fertilizer Plant, sent a portion of the CO2 to the Merit Units, and sent a portion of the CO2 to the Debtors to flood and operate the Velma Unit and the

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[4] There are approximately 35 Other Joint Interest Owners in the Velma Unit who collectively own approximately 12% of the working interests in the Velma Unit.

[5] Such Other Joint Interest Owners include parties who own working interests in the Merit Units and the Velma Unit. The Debtors believe that Other Joint Interest Owners who own working interests in the Merit Units, if any, will receive notice of this Motion through Merit, as operator of the Merit Units.

[6] Segment B is a short segment of pipeline running from Segment A to the Merit Units. The Debtors do not own an interest in Segment B and, accordingly, it is not subject to this Motion or included in the definition of "Assets."

Hoxbar Unit.[7] There is no other practical way for CO2 to reach the Debtors' units other than through the Pipeline.

C. Events Leading to the Sale Process.

15. Until December 31, 2016, the terms of Merit and the Debtors' joint ownership of the Assets were governed by that certain *Amended and Restated Articles of Agreement, Enid to Velma/Purdy CO2 Delivery System*, dated as of August 23, 1996 (the "**Articles of Agreement**"), and the terms of the CO2 sales from Merit to the Debtors were governed by that certain *Operation Agreement*, attached to the Articles of Agreement (the "**Operation Agreement**") and that certain *Agreement for Sale and Purchase of CO2*, dated as of August 23, 1996 (the "**CO2 Contract**," and together with the Articles of Agreement and the Operation Agreement, the "**Agreements**"). Copies of the Articles of Agreement, Operation Agreement, and CO2 Contract are attached hereto as Exhibit G, Exhibit H, and Exhibit I, respectively.

16. On December 31, 2016, the Agreements expired by their express terms.[8] Despite extensive negotiations with Merit, the Debtors were unable to reach a new agreement regarding the sale and delivery of CO2 through the Pipeline. The Debtors also attempted to negotiate a CO2 contract directly with Koch, but have likewise not been able to reach agreement.[9]

17. Due to these developments, the Debtors have been unable to obtain CO2 through the Pipeline since January 1, 2017, and, as a result, oil and gas production at the Debtors' Hoxbar Unit has steadily declined. Moreover, the Debtors have learned that Merit has separately entered into a new contract to purchase 100% of the CO2 produced by the Koch Fertilizer Plant, which the Debtors believe is the reason why they cannot reach agreement with

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[7] Much like a water or natural gas pipeline, the Debtors and the Merit Units can simultaneously obtain CO2 from the Pipeline from any access point without impacting the use of Other Joint Interest Owners.

[8] *See* Articles of Agreement §13.3; Operation Agreement §V-1; CO2 Contract §2.1.

[9] The Debtors are not aware of any other or alternate source of CO2 that could supply the Pipeline.

Koch for CO2 delivery. Without the ability to purchase CO2 from Merit, the Debtors have been unable to flood their wells and recover the limited oil and gas reserves that remain at such wells.

18. This predicament, however, caused the Debtors to re-evaluate the value of the Pipeline and the wells connected to it, and whether their value could be maximized through other uses. After consultation with their major creditors constituencies, the Debtors have determined that, even with access to CO2, the Debtors would not be able to derive additional value from the connected wells given the relatively modest amounts of remaining oil and gas at such locations.

D. Indications of Interest.

19. Once the Debtors determined that they no longer had any ability to use the Assets, the Debtors reached out to certain potential purchasers to gauge interest in the Assets. Once it became clear that several parties were interested, the Debtors and their advisors identified and contacted approximately twenty midstream companies that might have interest in acquiring the Assets. All potential purchasers were given basic, general information about the Assets reflecting, in general terms, the strategic value associated with the location of the Assets, the estimated ownership percentages by segment, the pipe specifications and date of construction/completion, and other relevant information. As a result of these efforts, the Debtors obtained a number of offers to purchase the Assets. Each offer, however, contemplated purchasing the Assets in their entirety, rather than the interests of the Debtors only.

20. The fact that offers have been made for the Assets in their entirety is not surprising. First, all offers to date contemplate converting the Pipeline from a CO2 pipeline to a crude oil transportation pipeline. As stated above, the Pipeline is strategically located such that

it is ideally situated and extremely valuable for transporting oil. Second, while Merit can use the Pipeline for transporting CO2, a purchaser of the Debtors' interest only may not be able to. Specifically, upon information and belief, Koch is (or will soon be in the process of) converting its facility to reuse CO2 in its own manufacturing process and will no longer have any excess CO2 for sale. Accordingly, even if a purchaser wished to purchase the Pipeline for the purposes of transporting CO2, they would only have access to CO2 until Koch's conversion is complete, and they would also be forced to reach an agreement to purchase CO2 from Merit, who would have significant leverage in negotiations based on their contract with Koch as described above. To the Debtors' knowledge, there are no other sources of CO2 capable of being connected to the Pipeline other than from the Koch Fertilizer Plant or being purchased from Merit. While the Debtors are open to selling only their interests, their marketing efforts to date have demonstrated that far greater value can be achieved through the sale of the Assets in their entirety.

E. The 363(h) Sale Process and Related Adversary Proceeding.

21. As noted above, because the Sale of the Assets will almost certainly involve selling each of the Other Joint Interest Owners' interests in the Assets (the "**Other Joint Interests**"), the Debtors hope to obtain their consent to the Sale. In the event such consent cannot be obtained, the Debtors intend to sell the Assets pursuant to section 363(h) of the Bankruptcy Code, which permits the sale of property of the estate, free and clear of the interest of a co-owner in such property, if, at the time of the commencement of the case, the debtor held an undivided interest in the property as a tenant in common or joint tenant and certain other conditions are met. *See* 11 U.S.C. § 363(h). Such a sale, however, requires the Debtors to commence an adversary proceeding pursuant to Bankruptcy Rule 7001(3). As will be described in further detail in the pleadings to be filed in the Adversary Proceeding, the Debtors believe

that the conditions required to sell the Assets free and clear under section 363(h) of the Bankruptcy Code will be satisfied. For the avoidance of doubt, any Sale of the Assets pursuant to this Motion will be conditioned upon either receiving the Other Joint Interest Owners' consent to the Sale or, if such consent cannot be obtained, a ruling in the Adversary Proceeding permitting the Sale free and clear of the Other Joint Interests.

RELIEF REQUESTED

22. By this Motion, the Debtors seek entry of an order, substantially in the form attached hereto as Exhibit A (the "**Bid Procedures Order**"), granting the following relief:

(a) authorizing and approving the bid procedures set forth in **Annex 1** to the Bid Procedures Order (the "**Bid Procedures**") to be used in connection with the proposed Sale of the Assets;

(b) authorizing the Debtors to enter into one or more asset purchase agreements (any such agreement, an "**Asset Purchase Agreement**") with one or more potential "stalking horse" bidders (each, a "**Stalking Horse Bidder**") and establishing procedures to provide certain Bid Protections (as defined below) to any Stalking Horse Bidder in connection therewith;

(c) scheduling an auction (the "**Auction**") and a hearing (the "**Sale Hearing**") to consider approval of the Sale;

(d) authorizing and approving procedures (the "**Assignment Procedures**") to be employed in connection with the identification and assignment of certain executory contracts and unexpired leases (collectively, the "**Assigned Contracts**") in connection with the Sale;

(e) approving the manner and form of notice of the Auction, the Sale Hearing, and the Assignment Procedures, substantially in the forms attached hereto as Exhibit B (the "**Sale Notice**") and Exhibit C (the "**Assignment Notice**"); and

(f) granting related relief.

23. The Debtors further seek entry of an order, substantially in the form attached hereto as Exhibit D (the "**Sale Order**") granting the following relief:

(i) approving the Sale of the Assets, or any combination thereof, to one or more Successful Bidders free and clear of liens, claims, interests and encumbrances;

(ii) approving the assignment by the Debtors or the Reorganized Debtors of the Assigned Contracts to the Successful Bidder(s); and

(iii) granting certain related relief.

BID PROCEDURES

24. The Bid Procedures are designed to maximize value for the Debtors' estates and will enable the Debtors to review, analyze, and compare all bids received to determine which bid is in the best interests of the Debtors' estates and creditors. The Bid Procedures describe, among other things, the procedures for parties to access due diligence, the manner in which bidders and bids become "qualified," the receipt of bids received, the conduct of any auction, the selection and approval of any ultimately successful bidders, and the deadlines with respect to the foregoing Bid Procedures. The Debtors submit that the Bid Procedures will enable the Debtors to conduct a sale process that will maximize the value of their estates. A schedule of the Debtors' proposed timeline for the auction and Sale of the Assets is attached to the Bid Procedures Order as **Annex 2**.

A. Bid Procedures Summary.

25. The salient terms of the Bid Procedures are as follows:[10]

Interested Parties. Unless otherwise ordered by the Court for cause shown, to participate in the Bidding Process, each interested person or entity (each, an

[10] The summary of the terms of the Bid Procedures contained herein is qualified in its entirety by reference to the Bid Procedures. If there are any inconsistencies between this summary and the terms of the Bid Procedures, the Bid Procedures shall govern in all respects. Capitalized terms used but not otherwise defined in this Section A have the meaning set forth in the Bid Procedures.

"**Interested Party**") must deliver the following to the Financial Advisor[11] so as to be actually received by no later than 5:00 p.m. (Eastern Time) on [March 13], 2017:

(a) an executed confidentiality agreement in form and substance reasonably satisfactory to the Debtors;

(b) a statement and other factual support demonstrating to the Debtors' reasonable satisfaction that the Interested Party has a *bona fide* interest in purchasing all or substantially all of the Assets; and

(c) sufficient information to allow the Debtors to determine, in their reasonable discretion, that the Interested Party has the financial wherewithal and any required internal corporate, legal, or other authorizations to close a sale, including, but not limited to, current audited financial statements of the Interested Party (or such other form of financial disclosure acceptable to the Debtors in their reasonable discretion).

If the Debtors determine, in consultation with the Consultation Parties (as defined below), that an Interested Party has satisfied the above requirements, then no later than two (2) business days after the Debtors make such determination, the applicable Interested Party will be deemed a "**Potential Bidder**" and the Debtors will deliver to such Potential Bidder: (a) an electronic copy of a proposed asset purchase agreement (the "**Proposed Agreement**") and (b) access information for the Debtors' confidential electronic data room concerning the Assets. The Debtors reserve the right, in consultation with the Consultation Parties, to determine whether an Interested Party has satisfied the above participation requirements such that it is eligible to be a Potential Bidder. The Debtors shall provide Vinson & Elkins LLP, as counsel to the Prepetition Credit Agreement Agent, and Milbank, Tweed, Hadley & McCloy LLP, as counsel to the Ad Hoc Noteholders Committee, with a list of all Interested Parties and all Potential Bidders. Any dispute concerning whether an Interested Party should be designated as a Potential Bidder shall be resolved by the Court. As used herein, the term "**Consultation Parties**" means the Prepetition Credit Agreement Agent and the Ad Hoc Noteholders Committee.

Due Diligence. Until the Bid Deadline (as defined below), in addition to access to the confidential electronic data room, the Debtors or their advisors will provide any Potential Bidder with such due diligence access or additional information as may be reasonably requested by the Potential Bidder that the Debtors determine to be reasonable and appropriate under the circumstances. All additional due diligence requests from Potential Bidders shall be directed to the Financial Advisor. Unless otherwise determined by the Debtors in consultation with the

[11] The Financial Advisor's contact information is: Evercore Partners, 55 East 52nd Street, New York, New York 10055 (Attn: Steven Becker (steven.becker@Evercore.com)).

Consultation Parties, the availability of due diligence to, and access to the Debtors' confidential electronic data room by, a Potential Bidder will cease if (a) the applicable Potential Bidder does not become (or ceases to be) a Qualified Bidder, from and after the Bid Deadline or (b) the Bidding Process or proposed sale is terminated or withdrawn.

The Debtors reserve the right to withhold any due diligence materials that they determine are business-sensitive or otherwise not appropriate for disclosure to a bidder who is a competitor of the Debtors or is affiliated with any competitor of the Debtors. Neither the Debtors nor their representatives shall be obligated to furnish information of any kind whatsoever to any person that is not determined to be a Qualified Bidder. The Debtors may, in the exercise of their reasonable business judgment and in consultation with the Consultation Parties, extend a Qualified Bidder's time to conduct due diligence after the Bid Deadline until the Auction.

Each bidder shall comply with all reasonable requests for additional information and due diligence access requested by the Debtors or their advisors regarding the ability of the Qualified Bidder to consummate its contemplated transaction. Failure by a Qualified Bidder to comply with such reasonable requests for additional information and due diligence access may be a basis for the Debtors, in consultation with the Consultation Parties, to determine that such bidder is no longer a Qualified Bidder or that a bid made by such Qualified Bidder is not a Qualified Bid.

Qualified Bid. Each offer or bid by a Potential Bidder (including any Other Joint Interest Owner who desires or seeks to exercise its rights under section 363(i) of the Bankruptcy Code) must satisfy each of the conditions set forth in "Bid Deadline" and "Bid Requirements" below to be deemed a "**Qualified Bid**" and for the Potential Bidder to be deemed a "**Qualified Bidder**".

Bid Deadline. A Potential Bidder who desires to be a Qualified Bidder (including any Other Joint Interest Owner who desires or seeks to exercise its rights under section 363(i) of the Bankruptcy Code) must deliver the Required Bid Documents (as defined below) so as to be actually received not later than 12:00 p.m. (Eastern Time) on [March 21], 2017 (the "**Bid Deadline**"), to the Financial Advisor, 55 East 52nd Street, New York, New York 10055 (Attn: Steven Becker (steven.becker@Evercore.com)) with copies to Latham & Watkins LLP, 885 Third Avenue, New York, New York 10022 (Attn: David F. McElhoe (david.mcelhoe@lw.com)), Richards, Layton & Finger, P.A., One Rodney Square 920 North King Street, Wilmington, Delaware 19801 (Attn: John H. Knight (knight@rlf.com) and Joseph C. Barsalona II (barsalona@rlf.com)). Upon receipt, the Debtors shall promptly provide copies of all Required Bid Documents to Vinson & Elkins LLP, as counsel to the Prepetition Credit Agreement Agent, and Milbank, Tweed, Hadley & McCloy LLP, as counsel to the Ad Hoc Noteholders Committee. The Debtors may, in their reasonable discretion and in consultation with the Consultation Parties, extend the Bid Deadline.

Bid Requirements. All bids shall include the following (the "**Required Bid Documents**"):

- a letter stating that the bidder consents to the jurisdiction of the Court and that the bidder's offer is irrevocable until the earlier of (i) the closing of the Sale (the "**Closing**") or (ii) [July 31], 2017 (the "**End Date**");

- a duly authorized and executed purchase agreement, including the purchase price for the Assets to be purchased, together with all exhibits and schedules, marked to show any amendments and modifications to the Proposed Agreement, and any proposed modifications to the Sale Order; and

- written evidence of a firm commitment for financing, or other evidence of ability to consummate the proposed transaction without financing, that is satisfactory to the Debtors.

In addition, a bid will be considered only if the bid:

- sets forth the contracts and leases to be assigned, if any;

- sets forth the consideration for the Assets to be purchased;

- sets forth whether the Potential Bidder would purchase only the Debtors' interests in the Assets, and, if so, sets forth the consideration for such Debtors' interests to be purchased;

- is not conditioned on obtaining financing or on the outcome of unperformed due diligence or corporate, stockholder or internal approval;

- provides evidence satisfactory to the Debtors of the bidder's financial wherewithal and operational ability to consummate the transaction and satisfy its adequate assurance of future performance requirement with respect to any executory contract or unexpired lease to be assigned to it, including the ability to obtain all necessary regulatory approvals and the anticipated timeframe for receiving such approvals;

- is accompanied by a deposit by wire transfer to the Debtors equal to 10% of the cash purchase price (any such deposit, a "**Good Faith Deposit**"), with such deposit to constitute liquidated damages if the Potential Bidder shall default with respect to its offer;

- subject to the satisfaction of any conditions precedent, provides for the closing of the transaction by no later than the End Date;

- sets forth the representatives who are authorized to appear and act on behalf of the bidder; and

- is received on or before the Bid Deadline.

Auction. In the event that the Debtors timely receive more than one Qualified Bid with respect to the Assets, the Debtors shall conduct an auction (the "Auction"). The Auction shall be in accordance with the Bid Procedures and upon notice to all Qualified Bidders who have submitted Qualified Bids. The Auction will be conducted at the offices of Latham & Watkins LLP, 811 Main Street, Houston, Texas 77002 on [_____], 2017 at [_]:00 [_].m. (Eastern Time), or at such other date, time, or location as the Debtors may notify all Qualified Bidders and the Consultation Parties in writing.

Only representatives or agents of the Debtors, the United States Trustee, the Prepetition Credit Agreement Agent, the Ad Hoc Noteholders Committee and any Qualified Bidder that has submitted a Qualified Bid (and the legal and financial advisors to each of the foregoing), will be entitled to attend the Auction, and only Qualified Bidders will be entitled to make any subsequent bids at the Auction.

At least one business day prior to the Auction, the Debtors or their advisors will provide copies of the Qualified Bid or combination of Qualified Bids which the Debtors believe is the highest or otherwise best offer (the "**Starting Bid**") to respective counsel to the Consultation Parties and all Qualified Bidders which have informed the Debtors of their intent to participate in the Auction.

The Debtors and their advisors shall direct and preside over the Auction. The Debtors may, in consultation with the Consultation Parties, employ and announce at the Auction additional procedural rules that are reasonable under the circumstances for conducting the Auction, such as the amount of minimum overbids and the amount of time allotted to make Subsequent Bids (as defined below); provided that such rules are disclosed to each Qualified Bidder and not inconsistent with the Bid Procedures Order, the Bankruptcy Code, or any other order of the Court entered in connection herewith. In the event of a dispute relating to the conduct of the Auction, such dispute will be heard by the Court.

Bidding at the Auction will begin with the Starting Bid and continue, in one or more rounds of bidding, so long as during each round at least one subsequent bid is submitted by a Qualified Bidder(s) that (i) improves upon such Qualified Bidder's immediately prior Qualified Bid (a "**Subsequent Bid**") and (ii) the Debtors determine, in consultation with the Consultation Parties, that such Subsequent Bid or combination of Subsequent Bids is (a) for the first round, a higher or otherwise better offer than the Starting Bid, and (b) for subsequent rounds, a higher or otherwise better offer than the Leading Bid (as defined below). All bids shall be made openly on the record and in the presence of all parties at the Auction.

After the first round of bidding and between each subsequent round of bidding, the Debtors shall, in consultation with the Consultation Parties, announce on the record the bid or bids that they believe to be the highest or otherwise best offer or combination of offers for the Assets (the "**Leading Bid**").

A round of bidding will conclude after each participating Qualified Bidder has had the opportunity to submit a Subsequent Bid with full knowledge of the then Leading Bid.

For the purpose of evaluating Subsequent Bids, the Debtors may, in consultation with the Consultation Parties, require a Qualified Bidder submitting a Subsequent Bid to submit, as part of its Subsequent Bid, additional evidence (in the form of financial disclosure or credit-quality support information or enhancement reasonably acceptable to the Debtors) demonstrating such Qualified Bidder's ability to close the proposed transaction.

Any and all rights of the Other Joint Interest Owners arising under or in connection with section 363(i) of the Bankruptcy Code must be exercised prior to the conclusion of the Auction, and no such exercise shall be permitted after the conclusion of the Auction. If, during the Auction, two or more Other Joint Interest Owners exercise their respective rights under section 363(i) of the Bankruptcy Code in accordance with the Bid Procedures and submit bids that are otherwise equal, then the bid submitted by the Other Joint Interest Owner that jointly owns the greatest percentage of the Assets shall be deemed the higher or otherwise better offer as between and among the bids submitted by the applicable Other Joint Interest Owners. In exercising their rights under section 363(i) of the Bankruptcy Code, any Subsequent Bid submitted by an Other Joint Interest Owner must, at minimum, include the same cash purchase price as the Starting Bid or the then Leading Bid, as applicable, regardless of whether the Other Joint Interest Owner only seeks to purchase that portion of the Assets in which such Other Joint Interest Owner has an interest

Notwithstanding anything to the contrary herein, the Debtors reserve the right, in consultation with the Consultation Parties, to reject at any time prior to entry by the Court of the Sale Order, without liability of any kind, any bid or offer that the Debtors in their reasonable discretion deem to be (x) inadequate or insufficient, (y) not a Qualified Bid or not otherwise in conformity with the requirements of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, or procedures set forth therein or herein, or (z) contrary to the best interests of the Debtors and their estates.

Selection of Successful Bid(s). Prior to the conclusion of the Auction, the Debtors will, in consultation with the Consultation Parties: (A) review and evaluate each bid made at the Auction on the basis of financial and contractual terms and other factors relevant to the sale process, including those factors affecting the speed and certainty of consummating the transaction; (B) identify the highest or otherwise best offer(s) for the Assets (the "**Successful Bid**"); (C)

determine which Qualified Bid (or combination thereof) is the Successful Bid and which is the next highest or otherwise best offer for the Assets (the "Alternate Bid"); and (D) notify all Qualified Bidders participating in the Auction of the identity of the bidder(s) making the Successful Bid (the "**Successful Bidder**") and the Alternate Bid (the "**Alternate Bidder**"), and the amount and other material terms of the Successful Bid and the Alternate Bid. For the avoidance of doubt, the Debtors may, in consultation with the Consultation Parties, (i) select the highest and otherwise best bid for the Debtors' interests in the Assets only as the Alternate Bid, and (ii) consider whether a Potential Bid contemplates both purchasing the Assets and only the Debtors' interests in the Assets, depending on the outcome of the Adversary Proceeding. Within two (2) business days following the completion of the Auction, the Successful Bidder and the Debtors shall execute and deliver all agreements, instruments or other documents necessary to consummate the Sale contemplated by the Successful Bid.

The Debtors will sell the Assets to the Successful Bidder only upon, and subject to, the approval thereof by the Court at the Sale Hearing. The presentation of a particular Qualified Bid to the Court for approval (whether the Successful Bid, the Alternate Bid, or otherwise) does not constitute the Debtors' acceptance of such Qualified Bid. The Debtors will be deemed to have accepted a Qualified Bid only if and when such Qualified Bid has been approved by order of the Court at the Sale Hearing.

If, for any reason, the entity that submits the highest or otherwise best Qualified Bid fails to consummate the purchase of the Assets subject to such bid, or any part thereof, the Debtors and the Alternate Bidder are authorized to effect the sale of such Assets to such Alternate Bidder as soon as is commercially reasonable, and the Alternate Bidder shall thereafter be treated as the "Successful Bidder" that submitted a "Successful Bid" for purposes of the Bid Procedures Order and the Sale Order, except as expressly set forth therein. If such failure to consummate the purchase is the result of a breach by the Successful Bidder, the Debtors reserve the right to seek all available remedies from the defaulting Successful Bidder, subject to the terms of the applicable purchase agreement.

The Sale Hearing. If the Debtors do not receive any Qualified Bids, the Debtors will report the same to the Court at the Sale Hearing (or by filing a notice thereof with the Court and cancelling the Sale Hearing). At the Sale Hearing, the Debtors will seek approval of the offer or offers constituting the Successful Bid and, at the Debtors' election, the offer or offers constituting the Alternate Bid.

The Debtors' presentation to the Court of an offer constituting the Successful Bid and Alternate Bid will not constitute the Debtors' acceptance of either of any such bid, which acceptance will only occur upon approval of such bid by the Court at the Sale Hearing.

Reservation of Rights. The Debtors reserve their rights to modify the Bid Procedures, impose additional customary terms and conditions on the sale of the

> Assets, including, without limitation, extending the deadlines set forth in the Bid Procedures, modifying bidding increments, and adjourning or canceling the Auction and/or the Sale Hearing (as applicable), withdrawing from the Auction or Sale any or all of the Assets, withdrawing the Motion and/or canceling the sale process in its entirety, accepting and seeking Court approval for a bid for less than substantially all of the Assets, and rejecting all Qualified Bids, in each case in the reasonable exercise of the Debtors' business judgment and in consultation with the Consultation Parties.
>
> Nothing in the Bid Procedures shall require the board of directors or other governing body of any Debtor to take any action, or refrain from taking any action, with respect to the Bid Procedures or any transaction in respect of the Assets to the extent such board of directors or other governing body determines, based on the advice of counsel, that taking such action, or refraining from taking such action, as applicable, would be inconsistent with the exercise of their respective fiduciary obligations.

B. Ability to Select a Stalking Horse Bidder.

26. To incentivize potential bidders and thereby maximize the potential value of the Assets, the Debtors request that they be authorized, but not required, in an exercise of their reasonable business judgment and in consultation with the Consultation Parties, to designate one or more Qualified Bids as a stalking horse bid (each, a "**Stalking Horse Bid**") and to execute an Asset Purchase Agreement with such Stalking Horse Bidder in connection with the proposed sale of the Assets, at any time before the commencement of the Auction. Upon execution of an Asset Purchase Agreement with any Stalking Horse Bidder, the Debtors will file a notice with the Court of such Stalking Horse Bidder and Asset Purchase Agreement.

27. If the Debtors execute an Asset Purchase Agreement with any Stalking Horse Bidder(s), the Debtors may (but are not required to), in consultation with the Consultation Parties, provide such Stalking Horse Bidder(s) with a breakup fee (the "**Break-Up Fee**") and an expense reimbursement (the "**Expense Reimbursement**" and together with the Break-Up Fee, the "**Bid Protections**"). In the event the Debtors determine to provide the Bid Protections, no later than three (3) calendar days after execution of an Asset Purchase Agreement with any

Stalking Horse Bidder, the Debtors will file and serve a notice of the proposed Bid Protections on all applicable interested parties. The notice shall include the amount of any Break-Up Fee and Expense Reimbursement; provided that (i) the aggregate amount of the Bid Protections shall not exceed three percent (3%) of the cash portion of the purchase price and (ii) such Bid Protections shall be payable and paid solely and exclusively from the aggregate cash proceeds of the closing of an alternative sale transaction (if any). The Debtors will request the Court to set a hearing to approve the Bid Protections no earlier than seven (7) calendar days after the execution of an Asset Purchase Agreement with any Stalking Horse Bidder. The Debtors will file and serve notice of such hearing on all applicable interested parties.

C. Assignment Procedures.

28. As part of the Sale, the Debtors may assign the Assigned Contracts to the Successful Bidder. The Debtors believe that no need exists for them to separately designate contracts or leases for assumption because, pursuant to Article VI.A of the Plan, all executory contracts and unexpired leases that have not specifically been rejected will be assumed by the Debtors on the Plan Effective Date, which should occur prior to the closing of any Sale. Furthermore, the Debtors have already served their contract counterparties with notices regarding their respective cure amounts. *See Notice of Cure Amounts in Connection with Contracts and Leases,* dated as of February 6, 2017 [Docket No. 815]; *Second Notice of Cure Amounts in Connection with Contracts and Leases,* dated as of February 9, 2017 [Docket No. 823].

29. Based on the foregoing, the Debtors' believe that the only relevant issues for their contract counterparties will be the identity of the proposed assignee and whether such assignee has provided adequate assurance of future performance pursuant to section 365(f)(2)(B) of the Bankruptcy Code. The Debtors, therefore, propose that the following Assignment Procedures govern such matters:

- If a Qualified Bidder identifies any executory contract or unexpired lease to be assigned to it as part of its Qualified Bid, then the Debtors shall, within two (2) business days thereof, file with the Court a list identifying such contracts and leases and provide the relevant contract counterparties with a copy of the Assignment Notice and Sale Notice.

- The Assignment Notice shall specifically state that the Debtors may be seeking the assignment of the Assigned Contracts and shall notify the relevant contract counterparties of the deadline for objecting to the ability of the Qualified Bidder to provide adequate assurance of future performance, which objection deadline shall be fourteen (14) calendar days following delivery of the Assignment Notice (the "**Adequate Assurance Objection Deadline**").

- If at any time after the entry of the Bidding Procedures Order the Debtors or any Qualified Bidder identify additional executory contracts and/or unexpired leases to be assigned as Assigned Contracts, the Debtors shall serve a supplemental assignment notice by facsimile, electronic transmission, hand delivery or overnight mail on the relevant contract counterparty to each supplemental Assigned Contract (and its attorney, if known) by no later than ten (10) days before the proposed effective date of the assignment. Each such notice shall set forth the following information: (i) the name and address of the contract counterparty, (ii) notice of the proposed effective date of the assignment (subject to the right of the Debtors and Successful Bidder to withdraw such request for assignment), (iii) identification of the Assigned Contract, and (iv) the deadlines by which any such contract counterparty must file an objection to the proposed assignment of any Assigned Contract (each a "**Supplemental Assignment Notice**")

- Such objection to adequate assurance of future performance must be filed with the Court and served on the Notice Parties (as defined in the Bid Procedures) so as to be received no later than the Adequate Assurance Objection Deadline. Failure to file and serve an objection in accordance with this paragraph will forever bar the non-debtor counterparty from objecting to the provision of adequate assurance of future performance and the non-debtor counterparty will be deemed to have consented to the assignment, transfer, and/or sale of such Assigned Contract.

30. Unless the applicable asset purchase agreement provides otherwise, a Qualified Bidder may, from time to time, exclude any Assigned Contract in its sole and absolute discretion until the Sale Hearing. The non-debtor party or parties to any such excluded contract or lease

will be notified of such exclusion by written notice mailed within three (3) business days of such determination.

D. Notice.

31. The Debtors shall serve within two (2) business days (by first class mail, postage prepaid) after entry of the Bid Procedures Order (the "**Mailing Deadline**"), the Sale Notice upon the following parties: (a) the Office of the United States Trustee for the District of Delaware; (b) the applicable state and local taxing authorities; (c) the Internal Revenue Service; (d) the Securities and Exchange Commission; (e) the United States Attorney General/Antitrust Division of Department of Justice; (f) counsel to the Prepetition Credit Agreement Agent; (g) counsel to the Ad Hoc Noteholders Committee; (h) Other Joint Interest Owners known to the Debtors; and (i) all entities who are known to possess or assert a lien against the Assets. In addition, on the Mailing Deadline, the Debtors shall place the Sale Notice on the website of the Debtors' claims and noticing agent, Kurtzman Carson Consultants, LLC.

32. Within one (1) business day after the conclusion of the Auction, the Debtors will file a notice identifying the Successful Bidder(s) (the "**Notice of Successful Bidder**").

33. The Debtors submit that the proposed Sale Notice and Notice of Successful Bidder, and providing notice of this Motion, the Auction, and the Sale Hearing as described herein, complies fully with Bankruptcy Rule 2002 and the Local Rules and constitutes good and adequate notice of the Sale and the proceedings with respect thereto. Therefore, the Debtors respectfully request that this Court approve the form of the Sale Notice and the notice procedures proposed above.

BASIS FOR RELIEF

A. The Bid Procedures Are Fair, Appropriate, and Designed to Maximize the Value Received for the Assets.

34. Bankruptcy Code section 363(b)(1) provides that "[t]he trustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1). The Debtors submit that the Bid Procedures are appropriate, consistent with procedures routinely approved by courts in this district, ensure that the Bidding Process is fair and reasonable and will yield the maximum value for their estates and creditors. The Bid Procedures proposed herein are designed to maximize the value received for the Assets by facilitating a competitive bidding process in which all potential bidders are encouraged to participate and submit competing bids. The Bid Procedures provide potential bidders with sufficient notice and an opportunity to acquire information necessary to submit a timely and informed bid. Thus, the Debtors and all parties in interest can be assured that the consideration for the Assets will be fair and reasonable. At the same time, the Bid Procedures provide the Debtors with an adequate opportunity to consider all competing offers and to select, in their reasonable business judgment, and with reasonable consultation with their pre- and post-petition lenders and any creditors' committee appointed in these Chapter 11 Cases, the highest and best offer(s) for the Assets. Accordingly, the Debtors submit that the Court should approve the Bid Procedures.

B. Approval of Entry into an Asset Purchase Agreement and the Provision of Bid Protections.

35. To the extent the Debtors enter into an Asset Purchase Agreement with a Stalking Horse Bidder prior to the commencement of the Auction, it is appropriate to provide the Stalking Horse Bidder with the proposed Bid Protections. The proposed Bid Protections are appropriate in these Chapter 11 Cases because the Debtors will only enter into an Asset Purchase Agreement

with a Stalking Horse Bidder if they believe it will maximize the ultimate sale price for the Assets. Moreover, the Debtors intend to negotiate any Asset Purchase Agreement at arms' length, in good faith, and in consultation with the Prepetition Credit Agreement Agent and the Ad Hoc Noteholders Committee. Thus, the authorization for the Debtors to provide the Bid Protections to a Stalking Horse Bidder is justified, if entering into an Asset Purchase Agreement allows the Debtors to maximize the potential sale value of the Assets at the Auction.

36. Courts have recognized that fees may be used to protect bidders in connection with a sale of assets pursuant to section 363 of the Bankruptcy Code and that such fees can be "important tools to encourage bidding and to maximize the value of the Debtors' assets." *Official Comm. of Subordinated Bondholders v. Integrated Res., Inc. (In re Integrated Res., Inc.)*, 147 B.R. 650, 659 (S.D.N.Y. 1992), *appeal dismissed*, 3 F.3d 49 (2d Cir. 1993). Such protections enable a debtor to assure a sale to a contractually-committed bidder at a price the debtor believes is fair and reasonable, while providing the debtor with the opportunity of obtaining even greater benefits for the estate through an auction process. *See In re 995 Fifth Ave. Assocs., L.P.*, 96 B.R. 24, 28 (Bankr. S.D.N.Y. 1989) (stating that bidding incentives may be "legitimately necessary to convince a white knight to enter the bidding by providing some form of compensation for the risks it is undertaking.") (citation omitted).

37. The Court has approved protections similar to the proposed Bid Protections as reasonable and consistent with the type and range of Bid Protections typically approved. *See, e.g., In re Cal Dive Int'l, Inc.*, No. 15-10458 (CSS) (Bankr. D. Del. July 7, 2015) [Docket No. 572] (authorizing expense reimbursement); *In re Old FOH Inc. (f/k/a/ Frederick's of Hollywood, Inc.)*, No. 15-10836 (KG) (May 6, 2015) [Docket No. 120] (authorizing a termination fee and expense reimbursement); *In re Caché Inc.*, No. 15-10172 (MFW) (Bankr. D. Del. Feb. 25, 2015)

[Docket No. 196] (authorizing expense reimbursement and breakup fee); *In re Deb Stores Holding LLC*, No. 14-12676 (KG) (Bankr. D. Del. Dec. 18, 2014) [Docket No. 159] (same); *In re Source Home Entm't, LLC*, No. 14-11553 (KG) (Bankr. D. Del. July 1, 2014) [Docket No. 160] (authorizing expense reimbursement); *In re Coldwater Creek, Inc.*, No. 14-10867 (BLS) (Bankr. D. Del. Apr. 29, 2014) [Docket No. 266] (approving expense reimbursement and breakup fee); *In re Brookstone Holdings Corp.*, No. 14-10752 (BLS) (Bankr. D. Del. Apr. 25, 2014) [Docket No. 241] (same); *In re LMI Legacy Holdings Inc. (fdba Landauer Healthcare Holdings)*, No. 13-12098 (CSS) (Bankr. D. Del. Sept. 12, 2013) [Docket No. 143] (same).

C. Approval of the Sale is Warranted Under Section 363 of the Bankruptcy Code.

38. Section 363(b) of the Bankruptcy Code provides that a debtor "after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b). A debtor must demonstrate a sound business justification for a sale or use of assets outside the ordinary course of business. *See, e.g.*, *In re Martin*, 91 F.3d 389 (3d Cir. 1996) (citing *In re Schipper*, 933 F.2d 513 (7th Cir. 1991)); *In re Chateaugay Corp.*, 973 F.2d 141, 143 (2d Cir. 1992); *Institutional Creditors of Cont'l Air Lines, Inc. v. Confl Air Lines, Inc. (In re Cont'l Air Lines, Inc.)*, 780 F.2d 1223, 1226 (5th Cir. 1986); *Stephens Indus., Inc. v. McClung*, 789 F.2d 386 (6th Cir. 1986); In re Lionel Corp., 722 F.2d 1063 (2d Cir. 1983).

39. Courts typically consider the following factors in determining whether a proposed sale meets this standard:

(a) whether a sound business justification exists for the sale;

(b) whether adequate and reasonable notice of the sale was given to interested parties;

(c) whether the sale will produce a fair and reasonable price for the property; and

(d) whether the parties have acted in good faith.

In re Del. & Hudson Ry. Co., 124 B.R. 169, 176 (D. Del. 1991).

40. The Debtors possess ample and sound business reasons for selling the Assets at this time. As discussed above, the Debtors have determined that the sale process will maximize the return to their creditors. Furthermore, the administrative and economic costs of maintaining such assets for an uncertain period of time would not be in the best interest of the estates. The Sale (in whatever form that ultimately results) represents the highest and best use for the Assets. Under these circumstances, sound business reasons exist that justify the sale of the Assets outside of the ordinary course of business.

41. The Debtors also meet the additional requirements necessary to approve a sale under section 363 of the Bankruptcy Code. As stated herein, the Debtors will provide adequate notice of the Sale to interested parties, and the Debtors submit that the aforementioned notice procedures are reasonable and adequate under the circumstances. In addition, the Debtors will continue to market the Assets up until the Bid Deadline in order to maximize the number of participants who may participate as buyer at the Auction. Accordingly, the Debtors are confident that their sale process will maximize the value to be achieved from the Sale and that the sale price will be fair and reasonable.

D. The Proposed Sale Transaction Satisfies the Requirements of Bankruptcy Code Section 363(f) for a Sale Free and Clear.

42. The Debtors request approval to sell the Assets free and clear of any and all liens, claims, interests and encumbrances (except for any assumed liabilities) in accordance with section 363(f) of the Bankruptcy Code. Pursuant to section 363(f), a debtor in possession may sell estate property "free and clear of any interest in such property of an entity other than the estate" if any one of the following conditions is satisfied:

(a) applicable nonbankruptcy law permits sale of such property free and clear of such interest;

(b) such entity consents;

(c) such interest is a lien and the price at which such property is to be sold is greater than the aggregate value of all liens on such property;

(d) such interest is in bona fide dispute; or

(e) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest.

11 U.S.C. § 363(f); *see Citicorp Homeowners Servs., Inc. v. Elliot (In re Elliot),* 94 B.R. 343, 345 (Bankr. E.D. Pa. 1988) (because section 363(f) is written in the disjunctive, a court may approve a "free and clear" sale even if only one of the subsections is met).

43. Section 363(f) is supplemented by section 105(a) of the Bankruptcy Code, which provides that "[t]he Court may issue any order, process or judgment that is necessary or appropriate to carry out the provisions of the Bankruptcy Code." 11 U.S.C. § 105(a); see *In re Trans World Airlines, Inc.*, 2001 WL 1820325, at *3, 6 (Bankr. D. Del. Mar. 27, 2001); *Volvo White Truck Corp. v. Chambersburg Beverage Inc. (In re White Motor Credit Corp.),* 75 B.R. 944, 948 (Bankr. N.D. Ohio 1987) ("Authority to conduct such sales [free and clear of claims] is within the court's equitable powers when necessary to carry out the provisions of Title 11.").

44. The Debtors submit that the Sale will satisfy the requirements of section 363(f) of the Bankruptcy Code. To the extent a party objects to Sale on the basis that it does hold a lien or encumbrance on the Assets, the Debtors believe that any such party could be compelled to accept a monetary satisfaction of such claims or that such lien is in *bona fide* dispute. In addition, to the extent the Debtors discover any party may hold a lien on all, or a portion of, the Assets, the Debtors will provide such party with notice of, and an opportunity to object to, the Sale. Absent objection, each such party will be deemed to have consented to the sale of the Assets.

45. Accordingly, the Debtors believe that the Sale will satisfy the statutory prerequisites of section 363(f) of the Bankruptcy Code, and should be approved free and clear of all liens, claims, interests and encumbrances.

E. The Proposed Sale Transaction Satisfies the Requirements of Bankruptcy Code Section 363(h) for the Interest of Any Co-Owner in Property.

46. As described above, certain of the Assets are jointly owned by the Debtors and the Other Joint Interest Owners. If the Debtors are unable to obtain the Other Joint Interest Owners' consent to the Sale, the Debtors will request approval to sell the Assets free and clear of such Other Joint Interests in accordance with Section 363(h) of the Bankruptcy Code. Pursuant to Section 363(h), a debtor in possession may sell both the estate's interest and the interest of any co-owner in property in which the debtor had, at the time of the commencement of the case, an undivided interest as a tenant in common, joint tenant, or tenant by the entirety if:

(a) partition in kind of such property among the estate and such co-owners is impracticable;

(b) sale of the estate's undivided interest in such property would realize significantly less for the estate than sale of such property free of the interests of such co-owners;

(c) the benefit to the estate of a sale of such property free of the interests of co-owners outweighs the detriment, if any, to such co-owners; and

(d) such property is not used in the production, transmission, or distribution, for sale, of electric energy or of natural or synthetic gas for heat, light, or power.

11 U.S.C. § 363(h).

47. The Debtors submit that the Sale will satisfy the requirements of Section 363(h) of the Bankruptcy Code. As described above, Bankruptcy Rule 7001(3) requires an adversary proceeding be filed in order to approve the sale of both the interest of the estate and of a co-owner in property pursuant to Section 363(h). Accordingly, the Debtors intend to file an adversary complaint, along with a related memorandum of law, that they believe will

demonstrate that the Sale satisfies the statutory prerequisites of Section 363(h) of the Bankruptcy Code to permit a sale free and clear of the Other Joint Interests. As described above in the summary of the Bid Procedures, potential bidders may, notwithstanding the pendency of the Adversary Proceeding, elect to submit bids for only the Debtors' interests in the Assets.

F. The Proposed Bidding Procedures Satisfy the Requirements of Section 363(i).

48. The Debtors believe that the Bid Procedures appropriately allow the Other Joint Interest Owners to exercise their rights under section 363(i) of the Bankruptcy Code, while not chilling the bids of other Qualified Bidders. Pursuant to section 363(i) of the Bankruptcy Code, "[b]efore the consummation of a sale of property to which subsection (g) or (h) of this section applies, . . . a co-owner of such property . . . may purchase such property at the price at which such sale is to be consummated." 11 U.S.C. §363(i). Recognizing the consequences of interpreting "consummation of a sale" literally, bankruptcy courts have permitted bidding and auction procedures to restrict the time in which co-owners may exercise their rights under section 363(i) of the Bankruptcy Code. *See In re Alisa Partnership*, 14 B.R. 54, 55 (Bankr. D. Del. 1981) (requiring co-owners to exercise their rights under section 363(i) of the Bankruptcy Code within 10 days of a public auction, and noting that "Congress could not have intended [363(i) to apply up through the date of consummation] and in fact did not say it."); *Prosser v. Prosser (In re Prosser)*, 2011 Bankr. LEXIS 851 at *37 (Bankr. D.V.I. Mar. 4, 2011) (upholding bidding procedures requiring co-owner's section 363(i) rights to be exercised within one week of the auction). As the *Alisa* court stated, "[a] close look at the statute reveals it does not say that *at any time* before the consummation of sale the co-owner has this right." *In re Alisa Partnership*, 14 B.R. at 55 (emphasis in original).

49. The Bid Procedures provide, among other things, that Other Joint Interest Owners wishing to exercise their rights under section 363(i) of the Bankruptcy Code must submit the

Required Bid Documents and exercise such rights at the Auction, so as not to chill bidding. Without these reasonable limitations, Potential Bidders would be discouraged from participating in the Auction and/or submitting bids that would yield the highest and best value for the Debtors' estates. This chilling effect would likely be enhanced here because any Sale may require a Court order in the Adversary Proceeding pursuant to section 363(h) of the Bankruptcy Code, which may not occur until weeks after any Sale Order is entered (if not longer).

50. Accordingly, the Debtors are only requesting that the Court limit the time in which the Other Joint Interest Owners may exercise their rights under section 363(i) of the Bankruptcy Code, rather than their ability to do so. The Debtors submit that the Bid Procedures will allow the Debtors to obtain the maximum price for the assets, while still affording the protections of section 363(i) of the Bankruptcy Code to the Other Joint Interest Owners.

G. A Successful Bidder Should Be Entitled to the Protections of Bankruptcy Code Section 363(m).

51. Pursuant to section 363(m) of the Bankruptcy Code, a good faith purchaser is one who purchases assets for value, in good faith, and without notice of adverse claims. *Mark Bell Furniture Warehouse, Inc., v. D. M. Reid Assocs., Ltd. (In re Mark Bell Furniture Warehouse, Inc.)*, 992 F.2d 7, 8 (1st Cir. 1993); *In re Willemain v. Kivitz*, 764 F.2d 1019, 1023 (4th Cir. 1985); *In re Congoleum Corp.*, No. 03-51524, 2007 WL 1428477, *2 (Bankr. D. N.J. May 11, 2007); *Abbotts Dairies of Pa.*, 788 F.2d 143, 147 (3d Cir. 1986).

52. Any agreement consummating a Sale will be negotiated at arm's-length by sophisticated parties, each represented by their own advisors. Accordingly, the Debtors request that the Sale Order include a provision that the Successful Bidder for the Assets is a "good faith" purchaser within the meaning of Bankruptcy Code section 363(m). The Debtors believe that

providing any Successful Bidder with such protection will ensure that the maximum price will be received by the Debtors for the Assets and closing of the same will occur promptly.

H. Assignment of Executory Contracts and Unexpired Leases Should Be Authorized.

53. As noted above, all executory contracts and unexpired leases of the Debtors will be assumed as of the Plan Effective Date (subject to certain limited exceptions). Once an executory contract is assumed, the trustee or debtor in possession may elect to assign such contract. *See In re Rickel Home Center, Inc.*, 209 F.3d 291, 299 (3d Cir. 2000) ("The Code generally favors free assignability as a means to maximize the value of the debtor's estate.").

54. Section 365(f) of the Bankruptcy Code provides that the "trustee may assign an executory contract … only if the trustee assumes such contract … and adequate assurance of future performance is provided." 11 U.S.C. § 365(f)(2). The meaning of "adequate assurance of future performance" depends on the facts and circumstances of each case, but should be given a "practical, pragmatic construction." *In re DBSI, Inc.*, 405 B.R. 698, 708 (Bankr. D. Del. 2009); *see also In re Decora Indus.*, 2002 U.S. Dist. LEXIS 27031, at *23 (D. Del. May 20, 2002) ("[A]dequate assurance falls short of an absolute guarantee of payment.").

55. The Debtors request approval under Bankruptcy Code section 365 of the Debtors' assignment of the Assigned Contracts in connection with the Sale. The Debtors further request that the Sale Order provide that the Assigned Contracts will be transferred to, and remain in full force and effect for the benefit of, the Successful Bidder notwithstanding any provisions in the Assigned Contracts, including those described in Bankruptcy Code sections 365(b)(2) and (f)(1) and (f)(3) that prohibit such assignment, and notwithstanding the occurrence of the Plan Effective Date.

56. To the extent necessary, the Debtors will present facts at the Sale Hearing to show the financial credibility, willingness and ability of the Successful Bidder to perform under the

Assigned Contracts. The Sale Hearing will afford the Court and other interested parties the opportunity to evaluate the ability of the Successful Bidder to provide adequate assurance of future performance under the Assigned Contracts, as required under Bankruptcy Code section 365(f)(2)(B). Accordingly, the Debtors submit that implementation of the proposed Assignment Procedures is appropriate in these Chapter 11 Cases.

I. Notice to Merit on Behalf of the Working Interest Owners in the Merit Units is Appropriate.

57. The Debtors are not aware of any entities other than Merit with a working interest in the Merit Units. The Debtors believe that only parties with working interests in the Purdy Unit own an interest in the Assets, but refer to the Bradley Unit in the definition of "Merit Units" out of an abundance of caution in the event that any interests in the Assets have been transferred to the working interest owners in the Bradley Unit. Merit, as operator of the Merit Units, should have a list of all working interest owners in the Merit Units, their respective interests in Segment A, and their contact information. Such information is currently unavailable to the Debtors, but the Debtors will request such information from Merit in connection with this Motion, and provide notices to the extent such information is received.

58. Given that information regarding the current identity of the Other Joint Interest Owners in the Merit Units is unknown to the Debtors, the Debtors intend to provide notice of this Motion and all related notices to Merit on behalf of Merit and all Other Joint Interest Owners in the Merit Units. Delivering notices, which are meant for all working interest owners in such unit, to the operator of a unit (rather than to all working interest owners) is common in the oil and gas industry. Furthermore, the Debtors shall serve all further notices contemplated by the Bid Procedures Order and the Sale Order to Other Joint Interest Owners that have been identified

by Merit in writing. Accordingly, the Debtors believe that the above described notice procedures are sufficient and adequate to provide notice to the Other Joint Interest Owners.

NOTICE

59. Notice of this Motion will be given to: (a) the Office of the U.S. Trustee; (b) counsel to the Prepetition Credit Agreement Agent; (c) counsel to the indenture trustee under the Debtors' 9.875% senior notes due 2020; (d) counsel to the indenture trustee under the Debtors' 8.25% senior notes due 2021; (e) counsel to the indenture trustee under the Debtors' 7.625% senior notes due 2022; (f) counsel to the Ad Hoc Committee; (g) the Other Joint Interest Owners known to the Debtors; (h) the Internal Revenue Service; (i) the United States Attorney for the District of Delaware; (j) the Attorneys General for the states of Oklahoma, Texas, and Kansas; (k) the Environmental Protection Agency or applicable similar state agency; (l) the parties included on the Debtors' consolidated list of thirty (30) largest unsecured creditors; (m) those parties known by the Debtors to assert a lien on the Assets, and (n) those parties that have requested notice pursuant to Bankruptcy Rule 2002. The Debtors submit that, under the circumstances, no other or further notice is required.

NO PRIOR REQUEST

60. No prior request for the relief sought herein has been made to the Court or any other court.

WHEREFORE, the Debtors respectfully request that the Court (i) enter the Bid Procedures Order, in substantially the form attached hereto as Exhibit A, (ii) enter the Sale Order, in substantially the form attached hereto and Exhibit D, and (iii) grant such other and further relief to the Debtors as the Court may deem proper.

Dated: February 17, 2017
Wilmington, Delaware

/s/ Brendan J. Schlauch

Mark D. Collins (No. 2981)
John H. Knight (No. 3848)
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Counsel for Debtors and
Debtors in Possession

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
CHAPARRAL ENERGY, INC., et al.,	:	Case No. 16-11144 (LSS)
Debtors.[1]	:	Jointly Administered
	:	**Hearing Date: March 9, 2017 at 10:00 a.m. (ET)** **Obj. Deadline: March 2, 2017 at 4:00 p.m. (ET)**

NOTICE OF MOTION AND HEARING

PLEASE TAKE NOTICE that, on February 17, 2017, the above-captioned debtors and debtors in possession (collectively, the "**Debtors**") filed the **Debtors' Motion for Entry of Orders (I) Establishing Bidding and Sale Procedures; (II) Approving the Sale of Assets; and (III) Granting Related Relief** (the "**Motion**") with the United States Bankruptcy Court for the District of Delaware (the "**Bankruptcy Court**").

PLEASE TAKE FURTHER NOTICE that any responses or objections to the Motion must be in writing, filed with the Clerk of the Bankruptcy Court, 824 North Market Street, 3rd Floor, Wilmington, Delaware 19801, and served upon and received by the undersigned counsel for the Debtors on or before **March 2, 2017 at 4:00 p.m. (ET)**.

PLEASE TAKE FURTHER NOTICE that if any objections to the Motion are received, the Motion and such objections shall be considered at a hearing before The Honorable Laurie Selber Silverstein, United States Bankruptcy Judge for the District of Delaware, at the Bankruptcy Court,

[1] The Debtors in these cases, along with the last four digits (or five digits, in cases in which multiple Debtors have the same last four digits) of each Debtor's federal tax identification number, are: CEI Acquisition, L.L.C. (1817); CEI Pipeline, L.L.C. (6877); Chaparral Biofuels, L.L.C. (1066); Chaparral CO2, L.L.C. (1656); Chaparral Energy, Inc. (90941); Chaparral Energy, L.L.C. (20941); Chaparral Exploration, L.L.C. (1968); Chaparral Real Estate, L.L.C. (1655); Chaparral Resources, L.L.C. (1710); Green Country Supply, Inc. (2723); and Roadrunner Drilling, L.L.C. (2399). The Debtors' address is 701 Cedar Lake Blvd., Oklahoma City, OK 73114.

824 North Market Street, 6th Floor, Courtroom 2, Wilmington, Delaware 19801 on **March 9, 2017 at 10:00 a.m. (ET).**

PLEASE TAKE FURTHER NOTICE THAT IF NO OBJECTIONS TO THE MOTION ARE TIMELY FILED, SERVED AND RECEIVED IN ACCORDANCE WITH THIS NOTICE, THE BANKRUPTCY COURT MAY GRANT THE RELIEF REQUESTED IN THE MOTION WITHOUT FURTHER NOTICE OR HEARING.

Dated: February 17, 2017
Wilmington, Delaware

/s/ Brendan J. Schlauch

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John H. Knight (No. 3848)
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Counsel for Debtors and Debtors in Possession

EXHIBIT A

BID PROCEDURES ORDER

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
CHAPARRAL ENERGY, INC., *et al*.,	:	Case No. 16-11144 (LSS)
Debtors.[12]	:	Jointly Administered

ORDER (A) AUTHORIZING AND APPROVING BID PROCEDURES TO BE EMPLOYED IN CONNECTION WITH THE SALE OF CERTAIN ASSETS OF THE DEBTORS AND OTHER CO-OWNERS; (B) ESTABLISHING PROCEDURES FOR APPROVAL OF CERTAIN BID PROTECTIONS; (C) SCHEDULING AN AUCTION AND SALE HEARING; (D) AUTHORIZING AND APPROVING ASSIGNMENT PROCEDURES; (E) APPROVING THE MANNER AND FORM OF NOTICE OF THE AUCTION, SALE HEARING, AND ASSIGNMENT PROCEDURES; AND (F) GRANTING RELATED RELIEF

THIS MATTER having come before the United States Bankruptcy Court for the District of Delaware (the "**Court**") upon the motion (the "**Motion**")[13] filed by the above-captioned debtors and debtors in possession (collectively, the "**Debtors**") for entry of (i) an order (a) authorizing and approving bid procedures set forth in Annex 1 hereto (the "**Bid Procedures**") to be employed in connection with a potential sale (the "**Sale**") of that certain pipeline and other assets described in greater detail in Exhibit F attached to the Motion (such pipeline and related assets, collectively, the "**Assets**" or the "**Pipeline**"); (b) authorizing the Debtors to enter into one or more asset purchase agreements (any such agreement, an "**Asset Purchase Agreement**") with one or more potential "stalking horse" bidders (each, a "**Stalking Horse Bidder**") and

[12] The Debtors in these cases, along with the last four digits (or five digits, in cases in which multiple Debtors have the same last four digits) of each Debtor's federal tax identification number, are: CEI Acquisition, L.L.C. (1817); CEI Pipeline, L.L.C. (6877); Chaparral Biofuels, L.L.C (1066); Chaparral CO2, L.L.C. (1656); Chaparral Energy, Inc. (90941); Chaparral Energy, L.L.C. (20941); Chaparral Exploration, L.L.C. (1968); Chaparral Real Estate, L.L.C. (1655); Chaparral Resources, L.L.C. (1710); Green Country Supply, Inc. (2723); and Roadrunner Drilling, L.L.C. (2399). The Debtor's address is 701 Cedar Lake Blvd., Oklahoma City, OK 73114.

[13] Capitalized terms used but not otherwise defined herein have the meaning set forth in the Motion.

establishing procedures to provide certain Bid Protections to any Stalking Horse Bidder in connection therewith, (c) scheduling an auction (the "**Auction**") and a hearing (the "**Sale Hearing**") to consider approval of the Sale: (d) authorizing and approving procedures (the "**Assignment Procedures**") to be employed in connection with the identification and assignment of certain executory contracts and unexpired leases (collectively, the "**Assigned Contracts**"); (e) approving the manner and form of notice of the Auction, the Sale Hearing, and the Assignment Procedures, substantially in the forms attached to the Motion as Exhibit B (the "**Sale Notice**") and Exhibit C (the "**Assignment Notice**"); and (f) granting related relief, and (ii) an order (the "**Sale Order**"), substantially in the form attached to the Motion as Exhibit D, approving the Sale free and clear of all liens, claims, encumbrances and interests and the assignment of the Assigned Contracts; and it appearing that the Court has jurisdiction over this matter; and it appearing that due notice of the Motion as set forth therein is sufficient under the circumstances, and that no other or further notice need be provided; and it further appearing that the relief requested in the Motion is in the best interests of the Debtors and their estates and creditors; and upon all of the proceedings had before the Court; and after due deliberation and sufficient cause appearing therefor,

NOW, THEREFORE, THE COURT HEREBY FINDS AND CONCLUDES THAT:[14]

A. The Court has jurisdiction to consider the Motion pursuant to 28 U.S.C. §§ 157 and 1334. Venue of these Chapter 11 Cases and the Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This proceeding on the Motion is a core proceeding pursuant to 28 U.S.C. § 157(b).

[14] Findings of fact shall be construed as conclusions of law, and conclusions of law shall be construed as findings of fact, as appropriate, pursuant to Bankruptcy Rule 7052.

B. The statutory predicates for the relief sought in the Motion are sections 105(a), 363, 365, 503, and 507 of the Code, Bankruptcy Rules 2002, 6004, 6006, and 9014, and Local Rule 6004-1.

C. The Debtors have articulated good and sufficient business justification for the Court to approve the Bid Procedures and the Assignment Procedures, and each set of procedures is reasonable and appropriate under the circumstances.

D. The Debtors have provided good and sufficient notice of the relief sought in the Motion, and no other or further notice of the Motion need be effectuated except as expressly set forth herein with respect to the Auction and the Sale Hearing. Subject to the immediately preceding sentence, a reasonable opportunity to object or to be heard regarding the relief requested in the Motion was afforded to all interested persons and entities.

E. Under the circumstances, the Bid Procedures are reasonably designed to maximize the value to be achieved for the Assets, and the Bid Procedures constitute a reasonable, sufficient, adequate, and proper means to provide any potential competing bidders with an opportunity to submit and pursue higher and better offers for the Assets.

F. In the event the Debtors determine to provide Bid Protections, including a Break-Up Fee and an Expense Reimbursement, within three (3) calendar days after execution of an Asset Purchase Agreement with a Stalking Horse Bidder, the Debtors shall serve notice of the proposed Bid Protections on the Notice Parties. The notice shall include the amount of any Break-Up Fee and Expense Reimbursement, provided that (i) the aggregate amount of the Bid Protections shall not exceed three percent (3%) of the cash portion of the purchase price and (ii) such Bid Protections shall be payable and paid solely and exclusively from the aggregate cash proceeds of the closing of an alternative sale transaction (if any). The Debtors shall request the

Court to set a hearing to approve the Bid Protections no earlier than seven (7) calendar days after the execution of an Asset Purchase Agreement with a Stalking Horse Bidder. The Debtors shall file and serve notice of such hearing on all Notice Parties.

G. The entry of this Order approving the relief requested by the Motion is in the best interests of the Debtors' estates and their creditors.

H. The form and manner of each of the notices approved herein are appropriate and reasonably calculated to provide interested parties with timely and proper notice of the Bid Procedures, the Assignment Procedures, the Auction, and the Sale Hearing under the circumstances.

I. The Assignment Notice is reasonably calculated to provide all counterparties to the Assigned Contracts with proper notice of the potential assignment, transfer, and/or sale of their executory contracts or unexpired leases and the Assignment Procedures. The assumption and cure procedures set forth in Article VI.B of the Plan were sufficient to provide notice to all counterparties to the Assigned Contracts of any cure amounts relating thereto.

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is GRANTED as set forth herein.

2. All objections to the entry of the Bid Procedures Order not otherwise withdrawn, waived or settled, and all reservations of rights included therein, hereby are overruled and denied on the merits.

3. The Bid Procedures are hereby approved and shall govern the bidding and the Auction with respect to the Sale of the Assets, and are incorporated herein by reference.

4. The Debtors may proceed with the Sale of the Assets in accordance with the Bid Procedures and are authorized to take any and all actions necessary or appropriate to implement the Bid Procedures. The timeline relating to the Bid Procedures and sale process attached hereto as Annex 2 is approved, and may be modified by the Debtors as set forth in the Bid Procedures or this Order.

5. Each Qualified Bidder participating at the Auction will be required to confirm that it has not engaged in any collusion with respect to the bidding or the Sale. All Qualified Bidders at the Auction shall be deemed to have consented to the core jurisdiction of the Court and waived any right to a jury trial in connection with any disputes relating to the Auction.

6. The Bid Procedures satisfy the requirements of section 363(i) of the Bankruptcy Code. The Other Joint Interest Owners may only exercise their rights arising under or in connection with section 363(i) of the Code in accordance with the Bid Procedures.

7. The Sale Hearing shall be held on [_____], 2017 at [_:00 _.m.] before the Honorable Laurie Selber Silverstein, United States Bankruptcy Judge, in the United States Bankruptcy Court for the District of Delaware, 824 North Market St, 6th Floor, Courtroom 2, Wilmington, Delaware 19801. The Sale Hearing may be adjourned from time to time as permitted by the Bid Procedures without further notice other than an announcement by the Debtors in the Court of such adjournment on the date scheduled for the Sale Hearing.

8. The form of Sale Notice substantially in the form annexed to the Motion as Exhibit B is hereby approved. The Debtors shall serve (by first class mail, postage prepaid) within two (2) business days after entry of this Bid Procedures Order (the "**Mailing Deadline**"), the Sale Notice upon the following parties: (a) the Office of the United States Trustee for the District of Delaware; (b) the applicable state and local taxing authorities; (c) the Internal

Revenue Service; (d) the Securities and Exchange Commission; (e) the United States Attorney General/Antitrust Division of Department of Justice; (f) once identified in writing by a Potential Bidder, to each of the applicable non-Debtor counterparties to the potential Assigned Contracts; (g) counsel to the Prepetition Credit Agreement Agent; (h) counsel to the Ad Hoc Noteholders Committee, (i) the Other Joint Interest Owners known to the Debtors, and (j) all entities who are known to possess or assert a lien against the Assets (collectively, the "**Notice Parties**"). In addition, on the Mailing Deadline, the Debtors shall place the Sale Notice on the website of the Debtors' claims and noticing agent, Kurtzman Carson Consultants, LLC.

9. Notice as set forth in the preceding paragraph shall constitute good and sufficient notice of the Motion as it relates to the Debtors' request for entry of the Sale Order, the Auction, and the Sale Hearing, and no other or further notice of the Motion, the Auction, and/or the Sale Hearing shall be necessary or required.

10. Responses or objections, if any, to the entry of the Sale Order shall be filed with this Court and served, so as to be actually received no later than [_____], 2017 at 4:00 p.m. (prevailing Eastern time) (the "**Sale Objection Deadline**") on: (a) counsel to the Debtors, Latham & Watkins LLP, 885 Third Avenue, New York, New York 10022 (Attn: David F. McElhoe (david.mcelhoe@lw.com)), and Richards, Layton & Finger, P.A., One Rodney Square 920 North King Street, Wilmington, Delaware 19801 (Attn: John H. Knight (knight@rlf.com) and Joseph C. Barsalona II (barsalona@rlf.com)); (b) counsel to the Prepetition Credit Agreement Agent, Vinson & Elkins LLP, Trammell Crow Center, 2001 Ross Avenue, Suite 3700, Dallas, Texas 75201 (Attn: Bill Wallander (bwallander@velaw.com)); (c) counsel to the Ad Hoc Noteholders Committee, Milbank, Tweed, Hadley & McCloy LLP, 28 Liberty Street, New York, New York 10005 (Attn: Evan Fleck (EFleck@milbank.com)); and (d) the Office of

the United States Trustee for the District of Delaware, J. Caleb Boggs Federal Building, Suite 2207, Wilmington, DE 19801 (Attn: David L. Buchbinder (david.l.buchbinder@usdoj.gov) and Natalie M. Cox (natalie.cox@usdoj.gov)) (collectively, the "**Notice Parties**"). The deadline to file responses or objections to the Debtors' satisfaction of section 363(h) of the Bankruptcy Code shall be set by further order of the Court and notice thereof shall be provided promptly to the Notice Parties.

11. The failure of any person or entity to file an objection on or before the Sale Objection Deadline shall be deemed a consent to the Sale of the Assets to the Successful Bidder and the other relief requested in the Motion, and be a bar to the assertion, at the Sale Hearing or thereafter, of any objection to the Motion, the Auction, the sale of Assets, the Debtors' consummation and performance of an asset purchase agreement with the Successful Bidder (including, without limitation, the transfer of the Assets purchased at the Sale free and clear of all liens, claims, encumbrances and interests); provided that nothing in this Order shall limit or impair the rights and objections of any party under or pursuant to Section 363(h) or Section 363 (j) of the Bankruptcy Code, and all such rights and objections are reserved.

12. The Debtors are authorized and empowered to take such steps, incur and pay such costs and expenses, and do such things as may be reasonably necessary to fulfill the notice requirements established by this Bid Procedures Order.

13. The following Assignment Procedures shall govern the assignment of the Assigned Contracts in connection with the Sale of Assets to the Successful Bidder:

- If a Qualified Bidder identifies any executory contract or unexpired lease to be assigned to it as part of its Qualified Bid, then the Debtors shall, within two (2) business days thereof, file with the Court a list identifying such contracts and leases and provide the relevant contract counterparties with a copy of the Assignment Notice and Sale Notice.

- The Assignment Notice shall specifically state that the Debtors may be seeking the assignment of the Assigned Contracts and shall notify the relevant contract counterparties of the deadline for objecting to the ability of the Qualified Bidder to provide adequate assurance of future performance, which objection deadline shall be fourteen (14) calendar days following delivery of the Assignment Notice (the "**Adequate Assurance Objection Deadline**").

- If at any time after the entry of the Bidding Procedures Order the Debtors or any Qualified Bidder identify additional executory contracts and/or unexpired leases to be assigned as Assigned Contracts, the Debtors shall serve a supplemental assignment notice by facsimile, electronic transmission, hand delivery or overnight mail on the relevant contract counterparty to each supplemental Assigned Contract (and its attorney, if known) by no later than ten (10) days before the proposed effective date of the assignment. Each such notice shall set forth the following information: (i) the name and address of the contract counterparty, (ii) notice of the proposed effective date of the assignment (subject to the right of the Debtors and Successful Bidder to withdraw such request for assignment), (iii) identification of the Assigned Contract, and (iv) the deadlines by which any such contract counterparty must file an objection to the proposed assignment of any Assigned Contract (each a "**Supplemental Assignment Notice**")

- Such objection to adequate assurance of future performance must be filed with the Court and served on the Notice Parties so as to be received no later than the Adequate Assurance Objection Deadline. Failure to file and serve an objection in accordance with this paragraph will forever bar the non-debtor counterparty from objecting to the provision of adequate assurance of future performance and the non-debtor counterparty will be deemed to have consented to the assignment, transfer, and/or sale of such Assigned Contract.

14. The form of notice of the Assignment Procedures, substantially in the form annexed to the Motion as Exhibit C, is hereby approved in all respects.

15. After the Plan Effective Date, the Reorganized Debtors shall have the same rights as the Debtors as set forth in this Order, and shall be authorized to take any actions necessary to carry out the provisions of the Motion and this Order, including, without limitation, any action that the Debtors are authorized to take pursuant to the Motion and this Order.

16. The rights and defenses of the Debtors and any other party in interest, including the Other Joint Interest Owners, with respect to any assertion that any liens, claims, and encumbrances will attach to the proceeds of the Sale are hereby preserved.

17. Notwithstanding the applicability of any of Bankruptcy Rules 6004(h), 6006(d), 7062, 9014, or any other provisions of the Bankruptcy Rules or the Local Rules stating the contrary, the terms and conditions of this Order shall be immediately effective and enforceable upon its entry, and any applicable stay of the effectiveness and enforceability of this Order is hereby waived.

18. The Debtors are hereby authorized to take such actions and to execute such documents as may be necessary to implement the relief granted by this Order.

19. To the extent the provisions of this Order are inconsistent with the provisions of any Exhibit referenced herein or with the Motion, the provisions of this Order shall control and govern.

20. Pursuant to sections 105(a) of the Bankruptcy Code, and notwithstanding the entry of the Confirmation Order or the occurrence of the Plan Effective Date, the Court shall retain exclusive jurisdiction over all matters arising out of, in connection with, and related to, this Order, the Sale Order, the Adversary Proceeding, any Sale (whether the Sale is for the Assets or some portion thereof), or any agreements, transactions, or procedures contemplated thereby.

21. All persons and entities that participate in the bidding process or the Auction shall be deemed to have knowingly and voluntarily submitted to the exclusive jurisdiction of this Bankruptcy Court with respect to all matters related to the terms and conditions of the transfer of Assets, the Auction, and any Sale.

Dated: _____, 2017
Wilmington, Delaware

THE HONORABLE LAURIE SELBER SILVERSTEIN
UNITED STATES BANKRUPTCY JUDGE

ANNEX 1

BID PROCEDURES

ANNEX 2

Proposed Timeline of Asset Sale Process

Milestone	Date
Deadline for Interested Parties to Provide Materials to Debtors	[March 13], 2017
Bid Deadline – Deadline for Bids, Designation of Assigned Contracts, and Deposits	[March 21], 2017
Auction (if necessary)	[March 28], 2017
Sale Objection Deadline	[April 3], 2017
Deadline to File a Successful Bidder Objection	[April 3], 2017
Sale Hearing	TBD
Sale Closing	TBD
End Date	[July 31], 2017

EXHIBIT B

SALE NOTICE

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
CHAPARRAL ENERGY, INC., *et al*.,	:	Case No. 16-11144 (LSS)
Debtors.[15]	:	Jointly Administered

NOTICE OF (I) PROPOSED SALE OF CERTAIN ASSETS OF THE DEBTORS FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND INTERESTS; (II) AUCTION; AND (III) SALE HEARING RELATED THERETO

PLEASE TAKE NOTICE OF THE FOLLOWING:

(1) On May 9, 2016 (the "**Petition Date**"), the above-captioned debtors and debtors in possession (collectively, the "**Debtors**") filed voluntary petitions under chapter 11 of title 11 of the United States Code (the "**Bankruptcy Code**") in the United States Bankruptcy Court for the District of Delaware (the "**Court**"). On February 17, 2017, the Debtors filed with the Court a motion [Docket No. [__]] (the "**Sale Motion**")[16] seeking, among other things, (a) authority to sell the Velma Pipeline, a pipeline that runs from Garfield County, Oklahoma to Stephens County, Oklahoma (such pipeline and related assets, collectively, the "**Assets**" or the "**Pipeline**") free and clear of all liens, claims, encumbrances, and interests (the "**Sale**"); (b) approval of certain procedures (the "**Bid Procedures**") for the solicitation of bids with respect to the Sale (the "**Bid Procedures Relief**"); (c) approval of certain procedures (the "**Assignment Procedures**") in connection with the identification and assignment of certain contracts and leases in connection with the Sale; and (d) scheduling of a final hearing with the Court for approval of the Sale (the "**Sale Hearing**").

(2) A hearing on the Bid Procedures Relief was held before the Court on [March 9], 2017, and thereafter the Court entered an order, among other things, approving the Bid Procedures Relief [Docket No. [_] (the "**Bid Procedures Order**"). A copy of the Bid Procedures Order is attached hereto as Exhibit 1. The Bid Procedures Order establishes the Bid Procedures that govern the manner in which the Assets are to be sold. All bids (including bids from any Other Joint Interest Owner who desires or seeks to exercise its rights under section 363(i) of the Bankruptcy Code) must comply with the Bid Procedures and be submitted so as to be received not later than 4:00 p.m. (prevailing Eastern time) on [March 21], 2017.

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[15] The Debtors in these cases, along with the last four digits (or five digits, in cases in which multiple Debtors have the same last four digits) of each Debtor's federal tax identification number, are: CEI Acquisition, L.L.C. (1817); CEI Pipeline, L.L.C. (6877); Chaparral Biofuels, L.L.C (1066); Chaparral CO2, L.L.C. (1656); Chaparral Energy, Inc. (90941); Chaparral Energy, L.L.C. (20941); Chaparral Exploration, L.L.C. (1968); Chaparral Real Estate, L.L.C. (1655); Chaparral Resources, L.L.C. (1710); Green Country Supply, Inc. (2723); and Roadrunner Drilling, L.L.C. (2399). The Debtor's address is 701 Cedar Lake Blvd., Oklahoma City, OK 73114.

[16] Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the Motion.

(3) Pursuant to the Bid Procedures, the Debtors intend to market the Assets for sale. Each Qualified Bidder (as defined in the Bid Procedures) shall be invited to participate in an auction (the "**Auction**") at the offices of Latham & Watkins LLP, 811 Main Street, Houston, Texas 77002. Any party interested in submitting a bid should contact the parties set forth in the Bid Procedures attached as Annex 1 to the Bid Procedures Order.

(4) The Sale Hearing currently is scheduled to be conducted on , [_____], 2017 at [_:_ _.m.] (prevailing Eastern time) at the United States Bankruptcy Court for the District of Delaware, 824 North Market St, 6th Floor, Courtroom 2, Wilmington, Delaware 19801, before the Honorable Laurie Selber Silverstein, United States Bankruptcy Judge, to consider the approval of the sale of the Assets to the prevailing Qualified Bidder(s) at the Auction (the "**Successful Bidder**"). The Debtors shall seek entry of an order approving the Sale substantially in the form of the order attached to the Sale Motion as Exhibit D (the "**Sale Order**"), with such changes as may be required to reflect the results of the Auction. The Sale Hearing may be adjourned or rescheduled from time to time as permitted by the Bid Procedures without further notice other than an announcement by the Debtors in the Court of such adjournment on the date scheduled for the Sale Hearing.

(5) A copy of the Bid Procedures Order and the Sale Motion (including the proposed Sale Order) may be obtained by (a) sending a written request to counsel to the Debtors, Latham & Watkins LLP, 885 Third Avenue, New York, New York 10022 (Attn: David F. McElhoe (david.mcelhoe@lw.com)), or (b) accessing the website of the Debtors' claims and noticing agent, Kurtzman Carson Consultants, LLC, http://www.kccllc.net/chaparralenergy.

(6) **NO OBJECTION TO SUCH SALE WILL BE CONSIDERED UNLESS A WRITTEN RESPONSE IS FILED WITH THE CLERK OF THE UNITED STATES BANKRUPTCY COURT BY THE OBJECTION DEADLINES (AS DEFINED BELOW).**

OBJECTIONS TO THE RELIEF REQUESTED IN THE SALE MOTION, INCLUDING THE DEBTORS' REQUEST TO APPROVE THE SALE OF THE ASSETS FREE AND CLEAR OF ALL LIENS, CLAIMS, ENCUMBRANCES, AND INTERESTS TO THE SUCCESSFUL BIDDER (EACH, A "SALE OBJECTION"), MUST BE MADE IN WRITING, FILED, AND SERVED SO AS TO BE ACTUALLY RECEIVED BY 4:00 P.M. (PREVAILING EASTERN TIME) ON [_____], 2017. OBJECTIONS RELATED SOLELY TO THE DEBTORS' SELECTION OF THE SUCCESSFUL BIDDER OR THE SUCCESSFUL BIDDERS' PROVISION OF ADEQUATE ASSURANCE OF FUTURE PERFORMANCE UNDER ANY ASSIGNED CONTRACT (EACH, A "SUCCESSFUL BIDDER OBJECTION" AND, TOGETHER WITH THE SALE OBJECTIONS, AN "OBJECTION") MUST BE MADE IN WRITING, FILED, AND SERVED SO AS TO BE *ACTUALLY RECEIVED* BY 4:00 P.M. (PREVAILING EASTERN TIME) ON [_____], 2017 (COLLECTIVELY, THE "OBJECTION DEADLINES").

IF NO OBJECTION IS TIMELY FILED, THE RELIEF REQUESTED SHALL BE DEEMED TO BE UNOPPOSED, AND THE COURT MAY ENTER AN ORDER GRANTING THE RELIEF SOUGHT OR THE NOTICED ACTION MAY BE TAKEN.

NOTWITHSTANDING THE FOREGOING, THE DEADLINE TO FILE RESPONSES OR OBJECTIONS SOLELY TO THE DEBTORS' SATISFACTION OF SECTION 363(H) OF THE BANKRUPTCY CODE SHALL BE SET BY FURTHER ORDER OF THE COURT AND NOTICE THEREOF SHALL BE PROVIDED PROMPTLY TO THE APPLICABLE PARTIES IN INTEREST.

(7) **ANY OBJECTION MUST BE SERVED ON EACH OF THE FOLLOWING PARTIES:** (a) counsel to the Debtors, Latham & Watkins LLP, 885 Third Avenue, New York, New York 10022 (Attn: David F. McElhoe (david.mcelhoe@lw.com)), and Richards, Layton & Finger, P.A., One Rodney Square 920 North King Street, Wilmington, Delaware 19801 (Attn: John H. Knight (knight@rlf.com) and Joseph C. Barsalona II (barsalona@rlf.com)); (b) counsel to the Prepetition Credit Agreement Agent, Vinson & Elkins LLP, Trammell Crow Center, 2001 Ross Avenue, Suite 3700, Dallas, Texas 75201 (Attn: Bill Wallander (bwallander@velaw.com)); (c) counsel to the Ad Hoc Noteholders Committee, Milbank, Tweed, Hadley & McCloy LLP, 28 Liberty Street, New York, New York 10005 (Attn: Evan Fleck (EFleck@milbank.com)); and (d) the Office of the United States Trustee for the District of Delaware, J. Caleb Boggs Federal Building, Suite 2207, Wilmington, DE 19801 (Attn: David L. Buchbinder (david.l.buchbinder@usdoj.gov) and Natalie M. Cox (natalie.cox@usdoj.gov))

(8) The Bid Procedures Order approves the Assignment Procedures, which set forth the manner in which the Debtors will identify the Assigned Contracts (as defined in the Sale Motion) and procedures to be followed by any party that wishes to object to the proposed assignment of any Assigned Contract.

(9) The failure of any person or entity to file an objection on or before the applicable Objection Deadline shall be deemed a consent to the Sale of the Assets to the Successful Bidder and the other relief requested in the Sale Motion, and be a bar to the assertion, at the Sale Hearing or thereafter, of any objection to the Sale Motion, the Auction, the sale of Assets, the Debtors' consummation and performance of an asset purchase agreement with the Successful Bidder (including, without limitation, the transfer of the Assets purchased at the Sale free and clear of all liens, claims, encumbrances and interests); provided that nothing in this notice shall limit or impair the rights and objections of any party under or pursuant to Section 363(h) or Section 363(j) of the Bankruptcy Code.

(10) This notice is subject to the full terms and conditions of the Sale Motion, the Bid Procedures Order, and the Bid Procedures, which shall control in the event of any conflict. The Parties in interest should review such documents in their entirety and consult an attorney if they have questions or want legal advice.

Dated: February [_], 2017

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COUNSEL FOR DEBTORS AND DEBTORS IN POSSESSION

SCHEDULE 1

Bid Procedures Order

EXHIBIT C

Assignment Notice

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
CHAPARRAL ENERGY, INC., *et al*.,	:	Case No. 16-11144 (LSS)
Debtors.[1]	:	Jointly Administered

NOTICE OF DEBTORS' REQUEST FOR AUTHORITY TO ASSIGN CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES

PLEASE TAKE NOTICE THAT on May 9, 2016, the above-captioned debtors and debtors in possession (collectively, the "**Debtors**") filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "**Court**").

PLEASE TAKE FURTHER NOTICE THAT on February 17, 2017, the Debtors filed with the Court a motion [Docket No. [__]] (the "**Sale Motion**")[2] seeking, among other things, (a) authority to sell the Velma Pipeline, a pipeline that runs from Garfield County, Oklahoma to Stephens County, Oklahoma (such pipeline and related assets, collectively, the "**Assets**" or the "**Pipeline**") free and clear of all liens, claims, encumbrances, and interests (the "**Sale**"); (b) approval of certain procedures (the "**Bid Procedures**") for the solicitation of bids with respect to the Sale (the "**Bid Procedures Relief**"); (c) approval of certain procedures (the "**Assignment Procedures**") in connection with the identification and assignment of certain contracts and leases in connection with the Sale; and (d) scheduling of a final hearing with the Court for approval of the Sale (the "**Sale Hearing**").

PLEASE TAKE FURTHER NOTICE THAT on [_____], 2017, the Court entered an order [Docket No. **[_]**] (the "**Bidding Procedures Order**") granting certain of the relief sought in the Motion, including, among other things authorizing and approving: (a) the bidding procedures for the Sale of the Assets (the "**Bidding Procedures**"); (b) the Debtors' entry into one or more asset purchase agreements (any such agreement, an "**Asset Purchase Agreement**") with one or more potential "stalking horse" bidders (each, a "**Stalking Horse Bidder**") and to provide certain bid protections (the "**Bid Protections**") to any Stalking Horse Bidder in connection therewith; and (c) procedures (the "**Assignment Procedures**")

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[1] The Debtors in these cases, along with the last four digits (or five digits, in cases in which multiple Debtors have the same last four digits) of each Debtor's federal tax identification number, are: CEI Acquisition, L.L.C. (1817); CEI Pipeline, L.L.C. (6877); Chaparral Biofuels, L.L.C (1066); Chaparral CO2, L.L.C. (1656); Chaparral Energy, Inc. (90941); Chaparral Energy, L.L.C. (20941); Chaparral Exploration, L.L.C. (1968); Chaparral Real Estate, L.L.C. (1655); Chaparral Resources, L.L.C. (1710); Green Country Supply, Inc. (2723); and Roadrunner Drilling, L.L.C. (2399). The Debtor's address is 701 Cedar Lake Blvd., Oklahoma City, OK 73114.

[2] Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the Motion.

to be employed in connection with the identification and assignment of the Assigned Contracts in connection with the Sale; and (d) granting certain related relief.

PLEASE TAKE FURTHER NOTICE THAT a hearing to consider approval of the Assets to the Successful Bidder (the "**Sale Hearing**") is presently scheduled to take place on **[_____], 2017 at [_]: [_].m. (Prevailing Eastern Time) (or such later date as determined in accordance with the Bidding Procedures)**, or as soon thereafter as counsel may be heard, before the Honorable Laurie Selber Silverstein, United States Bankruptcy Court, 824 North Market Street, 6th Floor, Courtroom No. 2, Wilmington, DE 19801. The Sale Hearing may be adjourned from time to time without further notice to creditors or parties in interest other than by announcement of the adjournment in open court on the date scheduled for the Sale Hearing.

OBTAINING ADDITIONAL INFORMATION

A copy of the Motion, the Asset Purchase Agreement, the Bidding Procedures Order, the Bidding Procedures and any other related documents may be obtained by (a) sending a written request to counsel to the Debtors, Latham & Watkins LLP, 885 Third Avenue, New York, New York 10022 (Attn: David F. McElhoe (david.mcelhoe@lw.com)), or (b) accessing the website of the Debtors' claims and noticing agent, Kurtzman Carson Consultants, LLC, http://www.kccllc.net/chaparralenergy.

ASSIGNED CONTRACTS OBJECTION PROCEDURES

PLEASE TAKE FURTHER NOTICE THAT upon the closing of the Sale of the Assets, the Debtors may seek to assign the Assigned Contracts set forth on **Exhibit A** attached hereto.

PARTIES LISTED ON EXHIBIT A ATTACHED HERETO ARE RECEIVING THIS NOTICE BECAUSE POTENTIAL BIDDER(S) HAVE IDENTIFIED THEM AS A POTENTIAL COUNTERPARTY TO AN ASSIGNED CONTRACT.

PLEASE TAKE FURTHER NOTICE THAT within 48 hours after [March 21], 2017 (the "**Bid Deadline**"), or as soon as practicable, the Debtors shall file with the Court and serve by facsimile, electronic transmission, hand delivery or overnight mail on the applicable contract counterparty to each Assigned Contract (and its attorney, if known) a notice (1) identifying each Qualified Bidder; (2) stating which Assigned Contract may be assigned to any such Qualified Bidder; and (3) a statement as to each Qualified Bidder's ability to provide adequate assurance of future performance under the applicable Assigned Contracts.

PLEASE TAKE FURTHER NOTICE THAT pursuant to the Assignment Procedures, any objections to the assignment of any Assigned Contract (each a "**Contract Objection**"), including without limitation any objection to the provision of adequate assurance of future performance pursuant to section 365 of the Bankruptcy Code, must: (a) be in writing; (b) filed with the Court, 824 North Market Street, 3rd Floor, Wilmington, DE 19801, by no later than **fourteen (14) calendar days following delivery of this Assignment Notice** (the "**Adequate**

Assurance Objection Deadline"); (c) identify the Assigned Contract to which the objector is party; (d) state with specificity what the objecting party believes is required to provide adequate assurance of future performance; and (e) be served in accordance with the Local Rules so as to be received on or before the relevant objection deadline by the following (collectively, the "**Objection Notice Parties**"): (i) counsel to the Debtors, Latham & Watkins LLP, 885 Third Avenue, New York, New York 10022 (Attn: David F. McElhoe (david.mcelhoe@lw.com)), and Richards, Layton & Finger, P.A., One Rodney Square 920 North King Street, Wilmington, Delaware 19801 (Attn: John H. Knight (knight@rlf.com) and Joseph C. Barsalona II (barsalona@rlf.com)); (ii) counsel to the Prepetition Credit Agreement Agent, Vinson & Elkins LLP, Trammell Crow Center, 2001 Ross Avenue, Suite 3700, Dallas, Texas 75201 (Attn: Bill Wallander (bwallander@velaw.com)); (iii) counsel to the Ad Hoc Noteholders Committee, Milbank, Tweed, Hadley & McCloy LLP, 28 Liberty Street, New York, New York 10005 (Attn: Evan Fleck (EFleck@milbank.com)); and (iv) the Office of the United States Trustee for the District of Delaware, J. Caleb Boggs Federal Building, Suite 2207, Wilmington, DE 19801 (Attn: David L. Buchbinder (david.l.buchbinder@usdoj.gov) and Natalie M. Cox (natalie.cox@usdoj.gov)) (collectively, the "**Contract Objection Procedures**"). If a Contract Objection is timely filed, a hearing with respect to such objection shall be held at the Sale Hearing or at such later date as approved by the Court.

PLEASE TAKE FURTHER NOTICE THAT under the terms of the Assignment Procedures, if at any time after the entry of the Bidding Procedures Order the Debtors or any Qualified Bidder identify additional executory contracts and/or unexpired leases to be assigned as Assigned Contracts, the Debtors shall serve a supplemental assignment notice by facsimile, electronic transmission, hand delivery or overnight mail on the relevant contract counterparty to each supplemental Assigned Contract (and its attorney, if known) by no later than ten (10) days before the proposed effective date of the assignment. Each such notice shall set forth the following information: (i) the name and address of the contract counterparty, (ii) notice of the proposed effective date of the assignment (subject to the right of the Debtors and Successful Bidder to withdraw such request for assignment), (iii) identification of the Assigned Contract, and (iv) the deadlines by which any such contract counterparty must file an objection to the proposed assignment of any Assigned Contract (each a "**Supplemental Assignment Notice**").

PLEASE TAKE FURTHER NOTICE THAT the Debtors previously provided notices of assumption and cure amounts pursuant to Article VI.A of their chapter 11 plan of reorganization. *See Notice of Cure Amounts in Connection with Contracts and Leases,* dated as of February 6, 2017 [Docket No. 815]; *Second Notice of Cure Amounts in Connection with Contracts and Leases,* dated as of February 9, 2017 [Docket No. 823]. Based on the foregoing, contract counterparties may only object to the identity of the proposed assignee and whether such assignee has provided adequate assurance of future performance pursuant to section 365(f)(2)(B) of the Bankruptcy Code.

PLEASE TAKE FURTHER NOTICE THAT the Successful Bidder, as the case may be, may determine to exclude any executory contract or unexpired lease from the list of Assigned Contracts by no later than the Closing of the Sale. The non-debtor party or parties to any such excluded contract or lease will be notified of such exclusion by written notice mailed within two (2) business days of such determination.

CONSEQUENCES OF FAILING TO TIMELY FILE AND SERVE AN OBJECTION

PLEASE TAKE FURTHER NOTICE THAT FAILURE TO FILE AND SERVE AN OBJECTION IN ACCORDANCE WITH CONTRACT OBJECTION PROCEDURES WILL FOREVER BAR THE NON-DEBTOR CONTRACT COUNTERPARTY FROM OBJECTING TO THE PROVISION OF ADEQUATE ASSURANCE OF FUTURE PERFORMANCE AND THE NON-DEBTOR CONTRACT COUNTERPARTY WILL BE DEEMED TO HAVE CONSENTED TO THE ASSIGNMENT, TRANSFER, AND/OR SALE OF SUCH ASSIGNED CONTRACT.

PLEASE TAKE FURTHER NOTICE THAT THE LISTING OF A CONTRACT OR LEASE ON EXHIBIT A ATTACHED HERETO SHALL **NOT** BE DEEMED OR CONSTRUED AS A LIMITATION OR WAIVER OF THE DEBTORS' ABILITY TO AMEND, MODIFY OR SUPPLEMENT THIS NOTICE.

PLEASE TAKE FURTHER NOTICE THAT the inclusion of any document on the list of Assigned Contracts shall not constitute or be deemed to be a determination or admission by the Debtors or the Successful Bidder that such document is, in fact, an executory contract or unexpired lease within the meaning of the Bankruptcy Code (all rights with respect thereto being expressly reserved).

[Remainder of Page Intentionally Left Blank]

Dated: [_____], 2017

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COUNSEL FOR DEBTORS AND DEBTORS IN POSSESSION

SCHEDULE 1

Bid Procedures Order

SCHEDULE 2

List of Assigned Contracts

EXHIBIT D

Sale Order

(To be submitted prior to the Bid Procedures Hearing)

EXHIBIT E

Form of Asset Purchase Agreement

(To be submitted prior to the Bid Procedures Hearing)

EXHIBIT F

Assets

EXHIBIT "A"

ARTICLES OF AGREEMENT
ENID TO VELMA/PURDY CO_2 DELIVERY SYSTEM

LINE SEGMENT "A"

Shall consist of the compressor, dehydrator and other CO_2 handling equipment acquired for the account of the parties and located near the point of receipt of carbon dioxide from Farmland Industries, Inc. near the Town of Enid, Oklahoma, and the pipeline and all appurtenances thereto between its point of origin at said Farmland Plant to the outlet flanges of the meter runs to measure carbon dioxide delivered to the Purdy Unit and Velma Unit respectively. Line Segment "A" initially shall be owned 50% by the Purdy Unit and 50% by the Velma Unit.

LINE SEGMENT "B"

Shall consist of the pipeline and all appurtenances thereto extending from the downstream side of the outlet flange of the meter run measuring carbon dioxide delivered for the account of the Purdy Unit to a point of termination to be designated in or near the Purdy Unit. Line Segment "B" shall be owned 100% by the Purdy Unit.

LINE SEGMENT "C"

Shall consist of the pipeline and all appurtenances thereto extending from the downstream side of the outlet flange of the meter run measuring carbon dioxide delivered for the account of the Velma Unit to a point of termination to be designated in or near the Velma Unit. Line Segment "C" shall be owned 100% by the Velma Unit.

Attached to Articles of Agreement

ENID TO VELMA / PURDY CO_2 DELIVERY SYSTEM

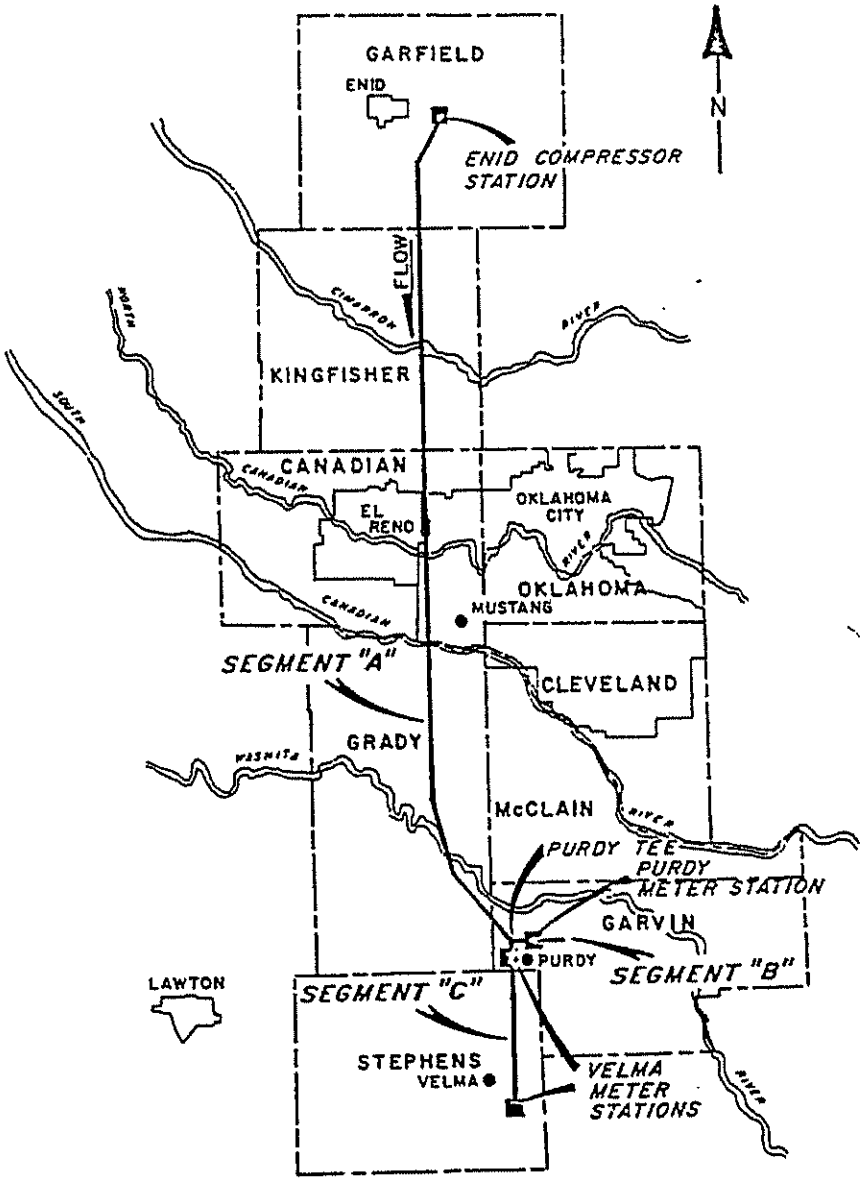

EXHIBIT "A" - Page 2

EXHIBIT G

Articles of Agreement

AMENDED AND RESTATED ARTICLES OF AGREEMENT ENID TO VELMA/PURDY CO_2 DELIVERY SYSTEM

AMENDED AND RESTATED ARTICLES OF AGREEMENT
ENID TO VELMA/PURDY CO_2 DELIVERY SYSTEM

INDEX

AMENDED AND RESTATED ARTICLES OF AGREEMENT, ENID TO VELMA/PURDY CO_2 DELIVERY SYSTEM

THIS AMENDED AND RESTATED ARTICLES OF AGREEMENT, ENID TO VELMA/PURDY CO_2 DELIVERY SYSTEM, is made and entered into as of the 25th day of August, 1996, by and between East Velma West Block Sims Sand Unit, located in Stephens County, Oklahoma ("Velma"), and Northeast Purdy Springer Sand Unit "A," located in Garvin County, Oklahoma ("Purdy"), referred to together as the "Units."

WITNESSETH:

WHEREAS, Velma and Purdy are parties to an agreement titled Articles of Agreement, Enid to Velma/Purdy CO_2 Delivery System, dated November 19, 1981 (the "1981 System Agreement"), a true and correct copy of which is attached hereto as Appendix E for all purposes.

WHEREAS, Velma and Purdy desire to amend and alter certain terms of the 1981 System Agreement, and to supersede in its entirety the 1981 System Agreement with this Amended and Restated Articles of Agreement, Enid to Velma/Purdy CO_2 Delivery System Agreement (the "Restated System Agreement").

WHEREAS, Velma and Purdy have authorized their respective Operators to execute this Restated System Agreement on behalf of said Unit.

WHEREAS, Velma and Purdy declare and represent that they are executing this Restated System Agreement upon their own volition, judgment and knowledge and after consultation with counsel, and that this Restated System Agreement contains the full, complete and entire agreement between them relating to the System.

NOW THEREFORE, in consideration of the following mutual and reciprocal covenants contained herein, Velma and Purdy agree as follows:

1. NAME

The CO_2 delivery system which is the subject of this Restated System Agreement is referred to herein as the "System." The System includes (a) Line Segment A of the CO_2 delivery facilities described in the 1981 System Agreement, including all pipeline, facilities, compressors, meters, dehydration equipment, cathodic protection equipment, and all facilities and appurtenances associated therewith or relating thereto, and (b) the compressor station, building, pipeline, facilities, meters, and all other facilities and appurtenances associated therewith or relating thereto. The Units recognize that the compressor station and associated facilities are located on property owned by Farmland Industries, Inc. ("Farmland"). By execution of this Agreement the Units ratify and adopt the Operating Agreement between OXY, as operator of the System, and Farmland attached hereto as Exhibit A. Line Segments "B" and "C" and all of their appurtenances do not comprise part of the System.

2. OWNERSHIP

A schematic diagram showing the approximate location of the System is shown on Exhibit B hereto, which exhibit is made a part of this Restated System Agreement. The System is owned fifty percent (50%) by Purdy and fifty percent

(50%) by Velma. Line Segment B and all of its appurtenances is owned one hundred percent (100%) by Purdy. Line Segment C and all of its appurtenances is owned one hundred percent (100%) by Velma. Velma and Purdy agree that, as of the date of execution of this Restated System Agreement, there are no outstanding adjustments to their ownership interest, capital, investment or other accounts, or any cash adjustment, required or permitted under the 1981 System Agreement. Velma and Purdy mutually waive and release the other from all claims to any such preexisting adjustments, costs or expenses. Further, Velma and Purdy agree that no cost or expense incurred pursuant to this Restated System Agreement shall result in or affect a change to the interest owned by either Unit in the System. Except as is otherwise provided herein, all matters in which a vote is contemplated or a vote is taken shall be by block vote to reflect a fifty percent (50%) interest to Purdy and a fifty percent (50%) interest to Velma.

3. INTENT

It is the intent of Velma and Purdy to utilize the System to transport carbon dioxide gas (CO_2) from any available Point(s) of Input to any available Point(s) of Delivery on the System. It is also the intent of Velma and Purdy to allow Purdy to use Line Segment B as described on Exhibit A attached to the 1981 System Agreement to transport CO_2 from any available Point(s) of Input to any available Point(s) of Delivery and to allow the Velma Unit to use Line Segment "C" as described on Exhibit "A" attached to the 1981 System Agreement to transport CO_2 from any available Point(s) of Input to any available Point(s) of Delivery.

4. GOVERNING COMMITTEE

4.1 Creation and Membership. A Governing Committee is created to consist of the operators of Velma and Purdy or such other parties designated to represent the interests now owned by Velma and Purdy. In the event the entire interest of either Unit in the System should be sold or transferred as permitted herein, and such Unit has no further rights in the System, then the successor(s) in interest to such Unit shall appoint a representative to the Governing Committee to vote the fifty percent (50%) block interest previously owned by such Unit.

4.2 Supervisory Function. The Governing Committee shall have the right to review the general management and control of the System, and the conduct of System business and operations by the System Operator.

4.3 Approval of AFEs. Authorities for Expenditure ("AFE") will be required for all projects and single event expenditures for which costs are anticipated to exceed $75,000. Approval shall be by unanimous consent of the Governing Committee.

4.4 Unit Operators Conduct Balloting. The System Operator shall furnish to the Governing Committee any AFEs or other proposed action requiring approval. The Governing Committee shall be responsible for balloting their respective System interest owners and reporting the results to the System Operator.

4.5 Voting by Governing Committee. Action may be taken either at an assembled meeting of the Governing Committee, by mailed ballot, or by ballot sent by facsimile. In event voting is by mailed or facsimile ballot, either Unit may

demand an assembled meeting. An AFE signed by a member of the Governing Committee shall have the same effect as a mailed ballot as to such expenditure.

4.6 Notice and Calling of Meetings. The System Operator shall give each Unit reasonable notice of a meeting of the Governing Committee. Such notice shall be in writing, and include a proposed agenda for such meeting. Meetings may be called by the System Operator at any time, and must be called upon demand of either Unit Operator.

5. SYSTEM OPERATOR

5.1 System Operator. OXY USA INC. is hereby designated as the System Operator as of the date of this Restated System Agreement. The System Operator shall conduct and manage the repair, maintenance, and operation of the System as provided herein, subject to the terms and limitations of this Restated System Agreement. In addition to the powers outlined in Article 4 above, the System Operator shall have the following powers and duties and shall be subject to the following limitations:

5.2 Conduct Operations. System Operator shall conduct all operations hereunder and permit all parties having an interest in the System to have access to the entire System area at all reasonable times to inspect and observe operations of every kind and character on the property.

5.3 Keep Books and Records. System Operator shall keep full, true and correct books, accounts and records of its operations hereunder, and copies of all contracts entered into as System Operator, which shall be made available for inspection at all reasonable times.

5.4 Carry Insurance. System Operator shall obtain and carry insurance, as set forth on attached Exhibit C hereof, covering all operations performed by it under this Restated System Agreement.

5.5 Ad Valorem Taxes.

5.5.A Pay Ad Valorem Taxes. System Operator shall render for ad valorem taxation all property comprising the System which by law should be returned for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent, subject to the following provisions. System Operator shall invoice the Units for ad valorem taxes based on their percentage of ownership under Article 2. Purdy shall be responsible for rendition and payment of taxes assessed on Line Segment B, and Velma shall be responsible for rendition and payment of taxes assessed on Line Segment C.

5.5.B Notification of Valuation. System Operator shall, as soon as practicable but no later than fifteen (15) days prior to the expiration of any protest period for objecting to an assessed tax valuation for ad valorem taxation regarding the System, transmit by facsimile mail followed by regular United States mail service to Velma and Purdy the assessed valuation of the System rendered for ad valorem taxation purposes.

5.5.C Protest by the Units. Velma and Purdy shall advise the System Operator in writing whether they protest or accept the valuation described in Article 5.5.B above. Failure to provide written acceptance or protest at least seven (7) business days prior to the expiration of any protest period shall release System Operator of any obligation to file a protest.

5.5.D Pursuit of Protest. If either Unit protests the valuation, System Operator shall enter a protest within the time and manner prescribed by law. The cost and expense of such protest shall be borne fifty percent (50%) by Velma and fifty percent (50%) by Purdy. When any such protested valuation shall have been determined, System Operator shall pay the assessment of the System together with interest and penalty, if any. Such payment shall be billed to and paid equally by each Unit.

5.6 Handling Litigation. The System Operator shall direct the conduct and handling of all litigation involving, growing out of, or in connection with the construction, operation, maintenance and abandonment of the System. Notwithstanding this provision, the System Operator shall obtain unanimous Governing Committee approval prior to initiating litigation proceedings against any third party on behalf of the System owners. The System Operator shall also obtain unanimous Governing Committee approval prior to accepting or rejecting any offers of settlement in excess of the amount designated in Article 10 in pending or proposed litigation matters involving the System, without regard to which party may have initiated such litigation and without regard to which party may have offered the settlement proposal. In the event the Governing Committee cannot agree on the manner of handling specific issues for which unanimous consent is required, each Unit Operator shall submit said issues to the System interest owners in their respective Unit for a vote. The Governing Committee shall be bound by said vote of a simple majority of the System interest owners responding within 30 days of their call to do so by written and mailed ballot. Each Unit shall be deemed to have a fifty percent (50%) liability for all litigation matters and costs associated therewith.

5.7 Removal of System Operator. The System Operator may be removed by an affirmative vote of eighty percent (80%) of the System owners remaining after excluding the voting interest of the System Operator. A removed or retiring System Operator shall continue to serve as System Operator under this Restated System Agreement until a successor System Operator is selected and begins to function. A retiring or removed System Operator shall not be obligated to continue the performance of duties as System Operator for more than one hundred twenty (120) days after removal or resignation. Call for removal of the System Operator shall be limited to one occurrence per calendar year unless cause, bankruptcy protection, or a complete sale of the System Operator's interest in the System, Velma or Purdy is found to exist. During the first thirty (30) months after execution of this Restated System Agreement, the System Operator shall be removed only for cause, or in the event the System Operator files for bankruptcy protection, or in the event the System Operator sells all or a majority of its interest in the Purdy Unit. After the expiration of thirty (30) months, removal of the System Operator can proceed in accordance with the terms of this Article 5.7.

5.8 Successor System Operator. An affirmative vote of System owners having a fifty and one-tenth percent (50.1%) majority of the voting interest in the System shall be sufficient to designate a successor System Operator. A System Operator just removed shall not vote its interest to reinstate itself as System Operator, nor shall the vote of the System Operator just removed defeat the designation of a successor System Operator unless such vote is supported by fifty and one-tenth percent (50.1%) majority of the factored voting interest of the remaining System owners. In the event a successor System Operator is not named via the voting process, a disinterested third-party shall be appointed to operate the System until such time as an affirmative vote of at least fifty and one-tenth percent (50.1%) of the System owners shall agree upon a new System Operator. Such disinterested third party shall own no interest in the System and shall exclude directors, owners, or other entities affiliated in any way with any System owner. Appointment shall be by unanimous consent of the Governing Committee. Absent such consent, all parties to this Agreement agree to the appointment of a disinterested third party by an independent arbitration panel or a District Court having jurisdiction over System operations.

5.9 Resignation of System Operator. System Operator may resign only after giving the Governing Committee one hundred twenty (120) days' written notice of its intention to resign, or sooner if a successor System Operator is selected and has assumed the duties of the System Operator prior to the end of such time. Upon the removal or resignation of a System Operator, the Governing Committee shall designate a successor System Operator in accordance with Article 5.8 hereof. The System Operator will be deemed to have resigned if at any time after becoming System Operator, the System Operator shall sell its interest in the System or sell its interest in Velma or Purdy. In such circumstance, a successor System Operator shall be chosen as described in Article 5.8 herein.

6. COSTS AND EXPENSE OF SYSTEM OPERATIONS

6.1 Waiver of Pre-Existing Claims. Velma and Purdy declare and agree that as of the date of execution of this Restated System Agreement, cost of construction, maintenance, repair, compression and all other costs heretofore incurred in regard to the System and/or purchase, transportation and delivery of CO_2 relating to the System have been fully paid and the parties hereto hereby mutually waive and release the other from all claims, if any there be, to such pre-existing costs and expenses.

6.2 No Future Investment/Expense Imbalances Shall Be Created. Except as provided for in Article 6.5, it is the intent of the parties that hereafter all costs and expenses, including by way of example and not of limitation, costs and expenses for construction, repair, maintenance, operation, compression and utilization, in regard to the System shall be paid on a current basis and thus no imbalances of these accounts shall occur.

6.3 Investment Costs. Investment Costs are those costs incurred in construction and/or installation of new System facilities and appurtenances and/or upgrading existing System facilities and appurtenances, including, by way of example and not of limitation, adding or upgrading compression capacity and adding or upgrading cathodic protection facilities. Investment Costs also include all liabilities, damages, claims, and injuries of whatever kind or nature arising from,

incurred or resulting from said activities, regardless of location of the damage or injury. Approval by a unanimous vote of the Governing Committee shall be required to undertake Investment Costs above the AFE limit of $75,000. Approved Investment Costs (and any Investment Costs less than or equal to $75,000 incurred by the System Operator) shall be charged equally to Velma and Purdy. In the event one Unit shall approve an Investment Cost and the other shall not, the approving Unit shall have the right, but not the obligation, to undertake the investment at their sole cost, without present or future remuneration from the other Unit.

6.4 Normal Operating Costs. Normal Operating Costs shall mean those costs and expenses equal to or less than seventy-five thousand dollars ($75,000), incurred in the usual and typical operation and repair of the System, including, by way of example and not of limitation, costs for maintenance of equipment, purchase of electricity, employee costs, contractor costs, System Operator overhead, and costs required as the result of decay, dilapidation, replacement, wear and use. All purchases of electricity, including those in excess of seventy-five thousand dollars ($75,000) associated with operating the System (but not repair to the electrical system), shall be considered Normal Operating Costs and, like other Normal Operating Costs, shall not require an AFE. The System Operator shall pay all Normal Operating Costs, and such costs shall be borne by Velma and Purdy in direct proportion to the volume of CO_2 each Unit (including each Unit's lessees and transferees) has transported through the System during the six months immediately preceding any month in which a Normal Operating Cost is incurred. Third party Normal Operating Costs shall be deemed incurred when invoice is received by the System Operator. For the purposes of payment of Normal Operating Costs after the System is re-started in 1996, it shall be assumed that Velma transported twenty percent (20%) of the total System CO_2, and that Purdy transported eighty percent (80%) of the total System CO_2 for the preceding six months. A cash settlement shall be made at the end of the six-month period to reflect actual System usage during the first six-months of System operation. The System Operator shall invoice Purdy and Velma for Normal Operating Costs on a monthly basis based upon the prior month's actual incurred Normal Operating Costs.

6.5 Major Repair Costs. Major Repair Costs shall include any expenditure, either as a single occurrence or on a project basis, above $75,000. Major Repair Costs shall not include (1) Normal Operating Costs for electricity, (2) Investment Costs, as defined in Article 6.3, and (3) Extraordinary Costs, as defined in Article 6.6 herein. Major Repair Costs shall require an AFE as provided in Article 4.3

6.5.A Rolling Average CO_2 Deliveries. A "Thirty-Six (36) Month Rolling Average Percentage" shall be defined for each Unit as the percentage of total CO_2 that each Unit (including each Unit's lessees and transferees) has transported through the System during the thirty-six (36) months immediately preceding any month in which a Major Repair Cost is voted on for approval in accordance with Article 6.5.B. By definition, the Thirty-Six (36) Month Rolling Average Percentage for Velma plus the Thirty-Six (36) Month Rolling Average Percentage for Purdy must equal one hundred percent (100%). Upon execution of this Restated System Agreement, each Unit will be deemed to have taken twelve (12) MMCFD of CO_2 during each of the prior thirty-six months.

6.5.B Major Repair Cost Approval. Unanimous Governing Committee approval shall be required for approval of Major Repair Costs.

6.5.B.1 Payment of Approved Major Repair Costs. If the Governing Committee shall approve a Major Repair Cost, such cost shall be borne by each Unit in direct proportion to its Thirty-Six (36) Month Rolling Average Percentage to and including the month immediately preceding that month in which the Major Repair Cost was approved. Except as provided for in Article 6.5.B.2, no recoupment shall be due from one Unit to the other as the result of any disproportionate payment of Major Repair Costs as provided for in this Article 6.5.B.1.

6.5.B.2 Major Repair Costs in the Final Thirty-Six (36) Months of System Operation. In the event an approved Major Repair Cost shall be incurred within thirty-six months of the date that the last amount of CO2 is transported through the System, any amount paid by one Unit in excess of fifty percent (50%) of said Major Repair Costs shall be recouped, without interest and subject to the provisions of Article 6.5.B.5, from the other Unit at the time of closing and settling of accounts during System dissolution.

6.5.B.3 Non-Consent of Major Repair Costs. If one Unit shall vote in favor of incurring a Major Repair Cost and the other shall not, the Unit which voted against the Major Repair Cost shall be deemed to have exercised a "Non-Consent" option. In that instance, the approving Unit will have the right but not the obligation to proceed with the Major Repair Cost and bear 100% of such expenditure. The cost that would have been borne by the non-approving Unit as calculated by Article 6.5.B.1 as if such cost had been approved shall be defined as the "Carried Cost".

6.5.B.4 Recoupment of Carried Cost by Approving Unit. In the event one Unit elects the Non-Consent option as defined in Article 6.5.B.3 and the other Unit bears one hundred percent (100%) of a Major Repair Cost, the Unit which bore said cost shall be entitled to recoupment of the Carried Cost at System dissolution as provided for in Article 13 or upon the withdrawal of the non-consenting Unit from the System as provided for in Article 12. Such recoupment shall be the actual dollar amount of the Carried Cost plus interest calculated at the rate of twelve percent (12%) per annum, compounded annually, from the date of the Non-Consent until the date of payment by the non-consenting Unit.

6.5.B.5 Recoupment Shall Be Limited. Article 6.5.B.4 notwithstanding, recoupment of Carried Costs by one Unit from another shall be limited to the maximum of any positive net proceeds realized by the non-consenting Unit from the salvage or sale of its interest in the System at the time of its withdrawal as provided for in Article 12 or dissolution as provided for in Article 13.

6.6 Extraordinary Costs. Extraordinary Costs and expenses are those costs and expenses associated with or related to the System resulting from activities occasioned by (1) violence of nature, (2) fire, or (3) activities undertaken by third parties. Extraordinary Costs specifically exclude any costs associated with normal System maintenance or repairs incurred as a result of System operations.

6.6.1 Approval and Payment of Extraordinary Costs A unanimous vote of the Governing Committee shall be required prior to incurring Extraordinary Costs in excess of $75,000. Such costs shall be borne equally by Velma and Purdy. In the event one Unit shall approve an Extraordinary Cost and the other shall not approve within thirty (30) days, then the Unit which does not approve the Extraordinary Cost shall be deemed to have given notice of withdrawal from the System pursuant to the terms and timing specified in Article 12 and shall proceed to withdraw from the System. Should the Unit which did not approve the Extraordinary Cost timely submit a Revocation of Notice to Withdraw as defined in Article 12.3.C to the System Operator, said Unit shall then have thirty days (30) to pay the Extraordinary Cost plus interest at the rate of twelve percent per annum from the date the Extraordinary Cost was incurred. Should this Unit not pay all outstanding Extraordinary Costs plus accumulated interest within thirty (30) days of their Revocation of Notice to Withdraw, said Unit will be deemed to have submitted their second notice of withdrawal from the System pursuant to the terms and timing specified in Article 12.

6.7 Start-up Costs. Start-up Costs are those costs and expenses normally associated with or relating to the System which are required in order to activate the System after it has been moth-balled or, alternatively, required in order to activate the System where there has been a period of six (6) consecutive months where no CO_2 has flowed through the System. The parties hereto understand and recognize that the System has been idle for a number of months before execution of this Amended and Restated System Agreement and that Start-up Costs will thus be incurred to reactivate the System. The parties have entered into a separate agreement regarding the sharing of the Start-up Costs which will be incurred immediately after execution of this Agreement. In the event Start-up Costs are incurred at any time after twelve (12) months from the date of execution of this Agreement, then said Start-up Costs will be borne solely by the party requesting reactivation of the System. In the event both Units request a reactivation of the System, then Start-Up Costs will be equally shared. Such Start-Up Costs shall be reapportioned and reimbursed at the end of thirty-six (36) months based upon use of the System during such thirty-six (36) months.

6.8 Limitation on Expenses. The System Operator may incur, without prior approval of the Governing Committee or any System owner, Normal Operating Costs Investment Costs, or Extraordinary Costs not exceeding seventy-five thousand dollars ($75,000.00); provided, where a specific project has been approved, that approval shall mean and include the approval of all necessary expenditures in carrying out such project; provided, further, System Operator need not obtain approval from either Unit or the Governing Committee for Start-up Costs incurred in 1996. Copies of AFEs or itemizations of estimated expenditures prepared by the System Operator for any expenditure less than seventy-five thousand dollars

($75,000.00) shall be furnished to the Governing Committee for accounting purposes only. Expenditures in excess of seventy-five thousand dollars ($75,000), excluding normal electrical usage associated with the actual operation of the System, shall require an Authority for Expenditure (AFE) and shall be subject to the approval requirements of Article 4.3.

6.9 Costs and Expenses Governed by Exhibit D. All Normal Operating Costs, Major Repair Costs, Investment Costs, and Extraordinary Costs shall be determined and governed in accordance with the accounting procedures attached hereto as Exhibit D. In the event of any conflict between Exhibit D and the terms of this Restated System Agreement, the terms of this Restated System Agreement control.

6.10 Default by Party. In the event either Unit fails to pay its costs within sixty (60) days after billing, System Operator may, at its sole discretion, cease delivery of all CO_2 to such Unit until such costs are paid. System Operator shall have a lien on the interest of each of the Units hereto in the System to secure the payment of such Unit's share of costs. Such lien shall be in addition to all other remedies in law or equity.

7. POINTS OF INPUT AND DELIVERY

7.1 Points of Input. "Point of Input" means the inlet flange on the upstream side of the measurement meter at any source of CO_2. As of the date of the execution of this Restated System Agreement, the Farmland Industries, Inc. fertilizer plant in Garfield County, Oklahoma, ("Farmland Plant") is the only Point of Input of CO_2 for the System. However, the parties recognize that additional sources of CO_2 may become available and may be connected for input into the System.

7.2 Costs Associated with Connection of Additional Points of Input. In the event the Purdy Unit and/or the Velma Unit make arrangements for the purchase of CO_2 from an additional source or sources of CO_2 (other than the Farmland Plant), such additional source or sources may be added to the System and all costs, expenses and liabilities incurred as the result of such additions shall be borne by the Unit utilizing such additional Point of Input. Further, all costs of operation upstream of additional Points of Input including by way of example but not limitation, costs of compression, maintenance, and metering required to input CO_2 into the System at an additional Point of Input shall be borne by the Unit utilizing such additional Point of Input. All equipment and materials upstream of any additional Point of Input shall not be considered as part of the System.

7.3 Points of Delivery. "Point of Delivery" is the outlet flange on the downstream side of the measurement meter used for the purpose of delivering CO_2. CO_2 in the System may be delivered to any Point of Delivery on the System. As of the date of this Restated System Agreement, the only Point of Delivery on the System is at the outlet flange on the downstream side of the meters at the Purdy Tee into line Segments B and C. In the event Velma or Purdy desire to make delivery of CO_2 at a Point of Delivery other than the Purdy Tee, all costs and expenses of installation, calibration, maintenance and repair of such Point of Delivery, appropriate metering equipment and costs of monthly calibration, shall be borne solely by the Unit desiring such Point of Delivery. The System Operator's duties under this Agreement terminate at the Point of Delivery. The

System Operator shall not be liable for any damage, injury, or other liability beyond the Points of Delivery in the System.

7.4 Metering. The System Operator shall install, operate, maintain and calibrate suitable meters at all Points of Input and all Points of Delivery. The cost of such metering services shall be borne in accordance with Articles 7.2 and 7.3 except for the Point of Input located at the Farmland Plant where such metering services shall be treated as Normal Operating Costs. The System Operator shall provide the Purdy Unit operator and the Velma Unit operator notice at least ten (10) days in advance of the time(s) and place(s) of meter calibration for all Points of Input and all Points of Delivery on the System. Such calibration shall occur once per month unless agreed to otherwise in writing by the Purdy Unit operator and by the Velma Unit operator. The Units shall have the right, at their sole cost, risk and expense, to install check meters on the downstream side of any meter installed by the System Operator at any Point of Delivery.

7.5 Quality of CO_2. The quality of CO_2 from any additional source(s) must contain more than ninety-eight Percent (98%) carbon dioxide together with minor quantities of hydrogen, methane, ethane, nitrogen, hydrogen sulfide [not to exceed one (1) grain per one hundred (100) standard cubic feet (scf)] and propane and heavier hydrocarbons. The System Operator may stop any input of CO_2 in the System where impurities in the CO_2 delivered at any Point of Input exceed this quality standard.

7.6 Notification of Volumes. Purdy and Velma shall each advise System Operator as to the amount of CO_2 each is inputting into the System at any Point of Input, and the amount of CO_2 to be delivered to any Point of Delivery. System Operator shall confirm and determine such amounts of CO_2 by the readings of the measurement meters located at such Points of Input and Points of Delivery. The System Operator shall endeavor to maintain an average System pressure of 1325 p.s.i. at any Point of Delivery and shall endeavor to deliver to each party the amount of CO_2 input into the System by such party. Each Unit shall be responsible for taking its CO_2 once it is delivered to the designated Points of Delivery.

7.7 Maximum System Operating Pressure. The parties recognize that the system is designed, implemented and installed for a maximum pressure of 2130 p.s.i. It is further recognized that each party shall have equal capacity in the System. In the event the parties desire to transport volumes of CO_2 through the System which would raise the pressure anywhere on the System to a point above the maximum system operating pressure, then CO_2 deliveries shall be curtailed and capacity in the System apportioned as described in Article 8 herein. No additions, modifications, or changes to the System to increase the maximum system operating pressure shall be undertaken without unanimous Governing Committee approval.

8. APPORTIONMENT OF CO_2 AND SYSTEM CAPACITY

8.1 Entitlement to Equal Capacity. The parties contemplate that the Velma Unit and the Purdy Unit will each be transporting various volumes of CO_2 on the System. It is not contemplated nor is it required that these volumes will be in equal amounts and it is unnecessary that the amount of CO_2 transported and delivered

on behalf of such Units be in equal amounts. However, the Purdy Unit and the Velma Unit shall be entitled to equal line capacity in the System.

8.2 Apportionment of Capacity. It is recognized that the combined requirements of the Units at times may be greater than the total line capacity of the System. It is agreed that if and in the event the demand for CO_2 hereunder by the parties shall exceed the capacity of the System for any reason, then the Operator shall notify all parties concerned and the CO_2 which the jointly owned System is capable of delivering will then be apportioned to the Units then desiring CO_2 on the basis of ownership of such desiring Units in the System in the proportion specified in Article 2 herein (i.e. Velma is entitled to 50% of line-capacity and Purdy is entitled to 50% of line capacity), to the end that the full capacity of said System shall be utilized to supply CO_2 to the Unit(s) then desiring same.

8.3 Right to Use Un-Utilized Capacity Without Compensation. In the alternative, if the requirements of either Unit should be less than one-half of the line capacity of the System, the other Unit will have the right, but not the obligation, to utilize the unused line capacity of the other Unit in the System without paying compensation therefore.

9. USE OF CO_2

No party may utilize any part of the System or dispose of CO_2 delivered to it hereunder to any individual, firm, municipality, or corporation in such manner as may subject it or the System to regulation as a common carrier or any other form of public utility.

10. CLAIMS

Operator shall investigate all claims regardless of kind or character growing out of the construction, maintenance, repair, operation and abandonment of the System, and shall deny, settle or defend any such claims as its judgment may dictate; provided, no settlement exceeding twenty-five Thousand Dollars ($25,000.00), including legal and litigation expense if any, shall be made without the unanimous approval of the Governing Committee. Costs and expenses incurred in handling such claims, including amounts paid in settlement thereof, and any legal expense involved in litigation, shall be borne by the Units in proportion to System ownership as defined in Article 2 herein.

11. INITIAL TERM AND TRANSFER OF INTEREST DURING INITIAL TERM

11.1 Initial Term of Restated System Agreement. This Restated System Agreement shall remain in force through December 31, 2011 (the "Initial Term"), and its terms may not be altered, amended or changed without the unanimous written consent of the Governing Committee.

11.2 Transfer of System Interest During Initial Term. Velma and Purdy intend to place certain limits on the right of either Unit to transfer or divest its interest in the System during the Initial Term, or any extension thereof.

These limits are to prevent inconsistent needs and demands for use of the System.

11.2.A Intra-Unit Transfers. No approval or finding is required by the Governing Committee or either Unit to effect an assignment, sale, lease or other transfer of interest in the System from one or more interest owners in a Unit to another interest owner or owners within the same Unit.

11.2.B Sale or Transfer by Individual Interest Owners Limited During Initial Term. During the Initial Term or any agreed extension, no individual interest owner in the Velma or Purdy Units may lease, assign, sell, or transfer their right to use System except as provided for in Article 11.2.A herein. Provided, however, that this provision shall not prohibit the sale or transfer of an interest in the System which accompanies a sale or transfer in the Unit.

11.2.C Unit Transfers During Initial Term. Either Unit, but not individual interest owners within that Unit, shall be allowed to assign, convey, sell, lease, or otherwise transfer all or part of the Unit's interest to a third-party during the initial term subject to provisions of Article 11 herein upon approval by a majority interest (or such other interest percentage as might be specified in the respective unit agreements or unit operating agreements)in that Unit.

11.2.D Agreement Subject to Restated System Agreement. Any assignment, conveyance, sale, lease or other transfer of a right to use the System ("Transfer") shall be made expressly subject to the terms of this Restated System Agreement. No Transfer shall operate to increase the obligations of the System Operator and in the event there is a Transfer to more than one party, then a representative shall be appointed to vote the entire fifty percent (50%) interest and to receive and pay invoices.

11.2.E Use Limited to CO_2. Any assignment, sale, lease or other transfer of a right to use the System during the Initial Term or any agreed or required extension shall be subject to the terms of this Agreement and shall be exclusively restricted to transportation and delivery of CO_2.

12. WITHDRAWAL DURING INITIAL TERM

12.1 Withdrawal During the Initial Term. Either Unit may withdraw from further participation in the maintenance and operation of the System and from this Restated System Agreement at any time during the Initial Term, or any extension thereof, by giving to the System Operator, the Velma Unit operator, and the Purdy Unit operator thirty (30) days' written notice of its intention to do so, and thereby be relieved of any further obligation hereunder, except for costs or liability for Normal Operating Costs, Major Repair Costs, Investment Costs, or Extraordinary Costs incurred prior to the "Effective Date of Withdrawal" as defined in Articles 12.3.A and 12.3.C below, and except for recoupable costs pursuant to Article 6.5. The withdrawing Unit shall have no further voice in determining any action to be taken in connection with the System after the Effective Date of Withdrawal. The first notice of withdrawal shall be revocable per the terms of this Article 12.

12.2 Payment of Salvage Value. Upon withdrawal of either Unit; as aforesaid, the other Unit shall pay to or receive from the withdrawing Unit the estimated net (positive or negative) Salvage Value of the withdrawing party's interest (giving due consideration to any reasonably estimated costs of abandonment and any other costs owed by the withdrawing Unit) and shall thereupon become the sole owner of the System. If the withdrawing Unit shall owe recoupment of Carried Costs at the time of its withdrawal, such Carried Costs shall be subtracted by the remaining Unit prior to disbursement of any positive net Salvage Value funds as specified in Article 6.5. If the remaining Unit does not elect to purchase the other Unit's interest in the System for Salvage Value, then both Unit's will be deemed to have elected to withdraw from the System and the System will be dissolved per the procedure outlined in Article 13 herein.

12.3 Determination of Salvage Value. For purposes of this Restated System Agreement, the term Salvage Value is not a nominal or junk value nor is it the fair market value of the System were it to be sold in its entirety and put to another use. Salvage Value is the estimated resale value of the reclaimed components of the System less the cost to recover said components and to conduct any remediation.

12.3.A Withdrawing Unit Provides Estimate of Salvage Value. The withdrawing Unit shall provide its estimate of Salvage Value as part of the written notification procedure specified in Article 12.1. The operator of the remaining Unit shall have sixty (60) days to accept or reject this estimate. If such estimate is accepted, withdrawal shall proceed per the terms of Article 12.2. The "Effective Date of Withdrawal" shall be defined to be that date thirty (30) days after the remaining Unit has notified the withdrawing Unit of its acceptance of the Salvage Value estimate. Rejection of the Salvage Value estimate by the remaining Unit shall occur in writing to the operator of the withdrawing Unit. If such written rejection of the Salvage Value estimate is not provided to the operator of the withdrawing Unit within sixty (60) days, then the remaining Unit shall be deemed to be in agreement with the Salvage Value estimate provided by the withdrawing Unit.

12.3.B Alternative Estimation of Salvage Value. If the remaining Unit does not accept the Salvage Value estimate provided by the withdrawing Unit then the following process and time schedule for determining Salvage Value shall apply.

12.3.B.1 Operators to Provide List of Appraisers. The operators of both Units within thirty (30) days after rejection of the Salvage Value estimate shall submit to the other Unit operator a list of at least three (3) acceptable MAI Certified appraisers to appraise the System for Salvage Value. If one of the Unit operators fails to timely submit a list of up to three (3) appraisers, such Unit operator shall have forfeited the right to further participate in selection of an appraiser for Salvage Value and the other Unit operator may proceed to select an appraiser for Salvage Value.

12.3.B.2 Appraiser Selection. Within fifteen (15) days thereafter, the operators of the Units shall then select one appraiser from among those appraisers on said lists who will appraise the System for Salvage Value. If the Unit operators cannot agree upon a single appraiser within said fifteen (15) days, then each Unit operator shall have an additional fifteen (15) days to select one appraiser and the two said appraisers shall proceed to appraise the System for Salvage Value. If one of the Unit operators fail to select an appraiser, it shall have forfeited the right to further participate in selection of an appraiser for Salvage Value.

12.3.B.3 Appraisers Estimate Salvage Value. After selection the appraiser(s) shall return a Salvage Value for the System within sixty (60) days to the operator of both Units. In the event two appraisers return to the operator of the withdrawing Unit different Salvage Values of the System pursuant to this Article 12, then the two appraisals shall be averaged and the average of the two such appraisals shall be the Salvage Value of the System. Failure by one but not both of the appraisers to return a Salvage Value within sixty (60) days of their selection shall void the late appraisal and it shall not be used to determine Salvage Value hereunder.

12.3.C Withdrawing Unit Options. Upon receipt of the average appraised Salvage Value, the withdrawing Unit shall submit its intention to withdraw, or alternately to remain in the System, along with the appraised Salvage Value to the System Operator, the Velma Unit operator, and the Purdy Unit operator within thirty (30) days of receipt of the average appraised Salvage Value. Such withdrawal shall then be accomplished per terms of Article 12.2 above. The "Effective Date of Withdrawal" shall be defined to be that date thirty (30) days after the withdrawing Unit has notified the other Unit of their intent to withdraw for the agreed upon Salvage Value. The withdrawing Unit can elect to remain in the System after receipt of the Salvage Value estimate. Such election shall be defined to be a "Revocation of Notice to Withdraw". During the course of this Agreement, each Unit shall be limited to one Revocation of Notice to Withdraw. Specifically, Purdy and Velma can each notify the other Unit twice during the term of this Agreement of their intent to withdraw and can revoke the first such notice upon estimation of Salvage Value. The second notice of withdrawal by one Unit to the other shall be binding irrespective of the final agreed to Salvage Value estimate.

12.3.D Withdrawing Unit Responsible for Salvage Estimation Costs. The withdrawing Unit shall be responsible for all costs and expenses incurred by the appraiser(s) in conducting the appraisal for Salvage Value whether or not the withdrawing Unit revokes the notice of withdrawal.

12.3.E System Usage After Withdrawal. After withdrawal under the terms of Article 12, the System may be used in any manner deemed advisable by the sole remaining Unit.

13. SYSTEM DISSOLUTION

13.1 CO_2 Need. The Purdy Unit or the Velma Unit shall have a CO_2 Need in the event that a minimum of three million standard cubic feet of CO_2 per day (averaged over a one month period) is delivered into either the Purdy Unit or the Velma Unit solely and exclusively for the purpose of enhanced oil recovery within the respective Unit in at least six months out of any twelve consecutive month period. CO2 Need shall be determined exclusively by the actual needs of Purdy and Velma, and not their lessees or transferees. For purposes of determining CO2 Need, the amount of CO2 delivered to either Purdy or Velma through the System for enhanced oil recovery shall be reduced by any volumes of CO2 produced by or delivered to such Unit and thereafter sold or delivered to parties outside the respective Unit.

13.2 Extension of Agreement if CO_2 Need Exists. If, at the end of the Initial Term or any extension thereof, one or both Units has a CO_2 Need as defined in Article 13.1 for the System, then this Restated System Agreement shall be extended in its entirety and shall continue until such time as both Units do not have a CO_2 Need as defined in Article 13.1; provided, however, unless mutually agreed upon this Restated System Agreement shall not extend beyond December 31, 2016, regardless of CO_2 Need.

13.3 Sale of System If No Current Need. At the end of the Initial Term or during any extension thereof, if neither Unit has exhibited a CO_2 Need, as defined in Article 13.1, during the prior twelve months then upon the election of one or both of the Units, the System shall be sold to a third party by the System Operator in a manner determined by the Governing Committee, provided that such sale shall be subject to preferential rights as provided in Article 13.4. The net proceeds from any sale hereunder shall be paid in direct proportion to System ownership at the time of the sale. Final settlement shall be subject to the recoupment provisions of Article 6.5.

13.4 Preferential Right to Purchase. If the Governing Committee elects to sell the System per the terms of Article 13.3, either Unit shall have a preferential right to purchase the System upon the same terms as those of a bona fide third party binding offer. Such right shall be exercised in writing within thirty(30) days of receipt and presentation of said third party offer to the Governing Committee. If neither party exercises their preferential right to purchase, the System shall be sold.

14. ACQUISITION OF RIGHTS-OF-WAY, LEASES AND EASEMENTS

All real property and all rights-of-way, surface leases and other easements acquired for any construction, maintenance, operation or use of the System shall be taken and held in the name of the System Operator, its successors or assigns, for the benefit of the Units, until and unless otherwise directed by the Governing Committee.

15. LIABILITY OF PARTIES

15.1 Several Liability. The liability of the parties under this Restated System Agreement shall be several and not joint or collective. Each party shall be responsible only for its obligations hereunder, and shall be liable only for its share of the costs as set forth herein.

15.2 No Personal Liability. No member of the Governing Committee or any other committee shall be personally liable or individually responsible to any party hereto for any act, error, default or omission resulting from action or inaction as a member of such committee.

15.3 Liability of System Operator. The System Operator shall not be liable or responsible for any damages to any Unit, working interest owner in a Unit, member of any committee or to the System, except only for willful misconduct or gross negligence in performance of this Restated System Agreement.

15.4 Liability. In the event, notwithstanding the provisions of this Article 15, the System Operator or any member of the Governing Committee or other committee hereunder shall be held liable by a court or agency of competent jurisdiction for any matter or thing for which it is herein provided that the System Operator or such person shall not be liable, the amount of such liability as finally determined shall be shared fifty percent (50%) by Velma and fifty percent (50%) by Purdy.

16. LAWS, REGULATIONS AND FORCE MAJEURE

This Restated System Agreement, and the operation of the System, is subject to all valid and applicable laws, orders, rules and regulations made by duly constituted governmental authorities. Performance under this agreement by the parties hereto shall be excused in the event such performance is prevented by strikes, fire, floods, tornadoes, lightning, explosions, acts of God or a public enemy, state and federal regulations, inability or delay in obtaining right-of-way permits, easements or material, and other happenings or events beyond the control of the parties, whether similar or dissimilar to the matters herein specifically enumerated; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided further, that no party hereto shall be required against its will to adjust any labor disputes.

17. ELECTION UNDER SECTION 761(a) OF THE INTERNAL REVENUE CODE OF 1954

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, and Regulations issued thereunder, to be excluded from the application of all sections of Subchapter K of Chapter I of Subtitle A of the Internal Revenue Code of 1954. If it is necessary to file a partnership return, the Operator will make this election in a statement attached to a partnership return filed with the Internal Revenue Service of the United States in accordance with regulations issued under Section 761(a) of the Internal Revenue Code of 1954.

18. REPRESENTATIONS REGARDING CURRENT ENCUMBRANCES

The parties hereto represent and warrant that as of the date of execution of this Restated System Agreement that there are no contracts, encumbrances or obligations which would interfere with the complete operation of Article 13 of this Restated System Agreement.

19. NOTICES

All notices, invoices, bills, statements, communications and other information required or permitted to be given and furnished to Velma or Velma's operator, or Purdy or Purdy's operator, pursuant to this Restated System Agreement, shall be effected as follows:

Henry Petroleum Corporation
d/b/a Henry Corporation of Oklahoma
Unit Operator of the East Velma West Block Sims Sand Unit
3525 Andrews Highway - Suite 200
Midland, TX 79703

OXY USA Inc.
Unit Operator of the Northeast Purdy Springer Sand Unit A
P.O. Box 300
Tulsa, Oklahoma 74102

20. SUCCESSOR AND ASSIGNS

The terms, conditions, and provisions of this Restated System Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

21. GOVERNING LAW

This Restated System Agreement is intended to be performed in the State of Oklahoma, and the substantive law of the State of Oklahoma shall govern the validity, construction, enforcement and interpretation hereof.

22. AUTHORITY TO EXECUTE

The Velma Unit and Purdy Unit by vote of their working interest owners have heretofore authorized the Velma Unit operator and the Purdy Unit operator to execute this Restated System Agreement on behalf of said respective Units.

23. WAIVER OF PARTITION

Each Unit hereby waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest in the System.

24. NO FIDUCIARY RELATIONSHIP

The parties hereto do not intend by this Restated System Agreement or by any act taken or relationship created hereunder to create a partnership or joint venture relationship, or any other relationship which could give rise to or create a fiduciary or trustee-type duty owing by any working interest owner in either Unit to any other owner, by one Unit to the other or to any working interest owner in either Unit, or by the System Operator to the Units or to any working interest owner in either Unit.

IN WITNESS WHEREOF, the parties hereto have executed this instrument as of the day and year herein above first written.

EAST VELMA WEST BLOCK SIMS SAND UNIT
By: Henry Petroleum Corporation
d/b/a Henry Corporation of Oklahoma, Operator

By: _____
Dennis R. Johnson
Chief Operating Officer &
Executive Vice-President

NORTHEAST PURDY SPRINGER SAND UNIT A
By: OXY USA Inc., Operator

By _____
Printed Name: Conrad Joseph
Title: Mid-Continent Region Vice President

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EXHIBIT H

Operation Agreement

EXHIBIT 'A' TO AMENDED AND RESTATED ARTICLES OF AGREEMENT, ENID TO VELMA/PURDY CO_2 DELIVERY SYSTEM

OPERATION AGREEMENT

THIS AGREEMENT, is made and entered into, with an effective date as of the ____ day of _____, 1996, by and between Farmland Industries, Inc., a Kansas corporation, hereinafter referred to as "Farmland", and OXY USA Inc., a Delaware corporation, as operator of the Enid to Velma/Purdy CO_2 Delivery System referred to as "OXY".

WITNESSETH:

WHEREAS, Farmland and OXY have entered into a CARBON DIOXIDE PURCHASE CONTRACT dated April 26, 1993, as amended ("CO_2 Contract"); and

WHEREAS, the Northeast Purdy Springer Sand Unit "A" located in Garvin County, Oklahoma, and the East Velma West Block Sims Sand Unit located in Stephens County, Oklahoma, are the owners of a carbon dioxide gas pipeline delivery system and compressor plant facility which processes, compresses and transports carbon dioxide gas from Farmland's Enid, Oklahoma fertilizer plant ("System"); and

WHEREAS, OXY is the operator of the System; and

WHEREAS, OXY desires Farmland to perform, and Farmland desires to perform certain operational and maintenance functions with regard to the compressor station and related piping and facilities (Facilities) necessary to receive, gather, process, compress, and transport the hereinafter defined CO_2 Gas;

NOW, THEREFORE, in consideration of the mutual conditions, covenants, and agreements herein set forth, Farmland and OXY hereby agree as follows:

I.

I-1. The following terms shall have the following meanings when used in this Agreement:

(a) CO_2 Stripper Overhead - the process vent stream from the carbon dioxide strippers in the Enid Plant, which contain water in vapor form and CO_2 Gas.

(b) CO_2 Gas - a by-product of the anhydrous ammonia manufacturing process of the Enid Plant containing, among other substances, a high percentage of carbon dioxide, and is the process stream to be delivered or offered for sale to OXY.

(c) Process Condensate - the stream which has been recovered in the OXY Facilities from the CO_2 Stripper Overhead, containing water and minor amounts of dissolved gases.

(d) Plan - the plan of Farmland's Enid Plant Site set out in Exhibit "A" attached hereto and hereby made a part of this Agreement.

(e) Enid Plant Site - the parcel of land near Enid, Oklahoma on which the Enid Plant is located, and which is more particularly delineated on the Plan.

(f) Enid Plant - Farmland's nitrogen fertilizer manufacturing facility located on Farmland's Enid Plant Site, the location of which is more particularly delineated on the Plan.

(g) System Plant Site - a parcel of land designated by Farmland and accepted by OXY that is located on Farmland's Enid Plant Site, all as more particularly set out and described on Exhibit "B", attached hereto and made a part hereof.

(h) OXY Facilities - those receiving, gathering, processing, compressing, and transporting facilities as are necessary to process the CO_2 Gas from the CO_2 Stripper Overhead and to transport the CO_2 Gas from the Enid Plant, as specifically described on Exhibit "C". Subject to the other provisions hereof, surface rights are retained by Farmland for any System Facilities outside of the System Plant Site.

(i) Quantity Measurement Meter - that meter located at an agreed upon location between Farmland and OXY, at a point after which CO_2 Gas has been prepared for delivery from the System Facilities.

(j) Power - the electric power needed for the construction, maintenance, and/or operation of the System Facilities.

(k) Utilities - the steam, fire water, fuel gas, raw cooling tower make-up water, and drinking water needed in connection with the construction, maintenance, and/or operation of the System Facilities.

(l) Performance Standards - the performance capability and operating standards for the System Facilities, attached hereto as Exhibit "D" and hereby made a part of this Agreement.

(m) Handover Date - the date upon which Farmland commences operation of the System Facilities in accordance with the terms of this Agreement, which date unless otherwise specified shall be the effective date of this Agreement.

(n) Ton - a unit of measurement consisting of Two Thousand (2,000) Pounds.

(o) Day - a period of twenty-four (24) hours commencing at 7:00 A.M. and extending until 7:00 A.M. on the following day. A day herein shall be that calendar date in effect at the beginning of the day referred to herein.

(p) Process Engineering Evaluation Support - a service consisting of recognition and recommendation of equipment and/or process operational additions or alterations which would enhance the future operation of the OXY Facilities.

(q) Direct Operation - operational functions performed at the standards and at the frequency necessary to operate and keep the System Facilities and System Plant Site in accordance with the performance capabilities and operating standards as set forth in the Performance Standards

of Exhibit "D", and in a condition indistinguishable from the remainder of the facilities at the Enid Plant Site.

(r) Leased Premises - the premises leased to OXY as set forth in II-1.

II.

SYSTEM FACILITIES

II-1. Farmland shall grant to OXY, as operator of the System, a lease for the System Plant Site and the System Facilities in the form attached hereto as Exhibit "H". The lease shall coincide with the term of hereof and shall be made subject to all of the terms and conditions of this Agreement. Matchpoints shall be as defined and shown on Exhibit "E" shall consist of the necessary service and process facility conduits to and from the Farmland Enid Plant as are required to permit operation of the System Facilities.

III.

PERFORMANCE DEMONSTRATION AND STANDARDS

III-1. The performance capability and operating standards for the System Facilities under which Farmland shall operate such facilities are set forth on Exhibit "D".

IV.

OPERATIONAL FUNCTIONS

IV-1. From the Handover Date, and until the termination of this Agreement (other than while OXY is operating the System Facilities in accordance with Paragraph XI hereof), Farmland

shall be solely responsible for the operation, safe keeping, maintenance, and protection of the System Facilities and the System Plant site. Such operational, safe keeping, maintenance, and protection functions performed by Farmland shall be at the standards and at the frequency necessary to keep the System Facilities and System Plant Site in accordance with the performance capability and operating standards as set forth in the Performance Standards of Exhibit "D", and in a condition indistinguishable from the remainder of the facilities at the Enid Plant Site.

IV-2. Farmland will prepare annually and present to OXY for its approval a preventive maintenance schedule for the System Facilities. Thereafter, Farmland will maintain the System Facilities in accordance with such schedule.

IV-3. Yearly reviews will be held no later than November 30 of each year between Farmland and OXY operating personnel and the System owners to review and recommend changes in operating procedures and reporting. Within thirty (30) days following such review, and operating budget will be submitted by Farmland to OXY for approval for the following calendar year. Farmland shall inform OXY at any time, during the operating budget year, that budgeted costs are not adequate to cover expenses, and the budget for the remainder of the operating year, upon OXY's approval, will be so amended.

V.

TERM

V-1. The term of this Agreement shall be from the effective date recited herein, and shall terminate upon termination of the CO_2 Contract.

VI.

OXY'S COST FOR SERVICES

Direct Cost Services.

VI.1 Farmland will provide Direct Operation for the System Facilities and will charge OXY for such Direct Operation as follows:

(a) A monthly fee of Ten Thousand Dollars ($10,000) plus sixty cents ($0.60) per ton of CO_2 Gas for the first fifty thousand (50,000) tons of CO_2 Gas delivered to and metered at the Quantity Measurement Meter, and thirty cents ($0.30) per ton of CO_2 Gas for all CO_2 Gas delivered to and metered at the Quantity Measurement Meter in excess of 50,000 tons. The monthly fee shall be adjusted on September 1 of each year. Said adjustment shall be equal to the percent increase (or decrease) in hourly wage rate paid to Farmland's "A" operators on September 1 of that year as compared to the hourly wage rate paid to Farmland's "A" operators on September 1 of the immediately preceding year.

(b) An amount equal to compensation actually paid by Farmland pursuant to its Variable Compensation Plan to its "A" operators (maximum of four) engaged in the operation of the System Facilities, provided that such compensation shall not exceed eight percent (8%) of such employees' annual total wages (proportionally reduced), provided that such compensation shall be in the proportion to the hours that such employees were actually engaged in operation of the System Facilities.

(c) A monthly amount equal to one hundred fifty percent (150%) of the salaries and wages for personnel who are directly engaged in the maintenance, maintenance crafts (as needed), safe keeping and protection services provided for the System Facilities and System Plant Site provided by Farmland, including third party employees who are normally used as part of Farmland's plant maintenance program. Such charges shall be prorated and limited to the actual time that such personnel are directly engaged in the maintenance of the System Facilities and System Plant Site. Calculation of charges for personnel described in this Article VI-1.

(c) shall exclude all employee fringe benefits, but shall include compensation, if any,

paid by Farmland pursuant to its Variable Compensation Plan, provided that such compensation shall not exceed eight percent (8%) of the annual total wages of such personnel (proportionally reduced) and in proportion to the total wages of said personnel while actually engaged in maintenance of the System Facilities and System Plant Site.

Services Without Additional Charges.

VI-2. Farmland will provide from the Handover Date the following services without additional charges for the operation of the System Facilities:

(a) Maintenance facilities;

(b) Warehouse;

(c) Oklahoma Water Resources Board certified laboratory testing, including chemists and technicians;

(d) Accountants and clerks;

(e) Purchasing and receiving capabilities;

(f) Engineers (chemical and mechanical);

(g) Mechanical equipment specialists;

(h) Operational and maintenance supervision;

(i) Environmental reporting responsibility;

(j) Process Engineering Evaluation Support, and

(k) Waste water treatment on the Farmland side of the waste water Matchpoint.

Reimbursable Costs.

VI-3. OXY shall pay for directly, or reimburse Farmland for Farmland's actual costs of operating supplies - including lubricating oils, specialty chemicals, cooling tower chemicals, maintenance supplies of any type whatsoever, and all other supplies of any type whatsoever used

exclusively within the System Facilities or System Plant Site. Farmland shall purchase without approval single items of cost less that $10,000.00. Farmland shall obtain authority of OXY before purchasing single items costing more that $10,000.00.

VI-4. OXY shall pay for directly, or reimburse Farmland where applicable, except as stated herein, the entire amount of Power and Utilities costs incurred with relation to construction, operation, maintenance, and/or disassembling of the System Facilities or System Plant Site.

VI-5. Raw cooling tower make-up water made available by Farmland to OXY pursuant to the Agreement shall be made available at the average monthly cost to Farmland of Enid City potable water at the Enid Plant Site.

VI-6. OXY shall pay for directly, or reimburse Farmland where applicable, for mutually agreed upon special services such as manufacturing representatives, or consultants or services not available from either company.

VII.

PAYMENT AND TERMS

VII-1. Farmland shall bill OXY monthly for Direct Operation, maintenance, maintenance crafts, safe keeping and protection services, operating supplies, Power, Utilities, and special services for the System Facilities and System Plant Site, as defined and set out above. Any such costs paid for directly by OXY shall not be billed. OXY's and Farmland's rights with respect to auditing the costs and charges appearing on any such billing statement shall be governed by the provisions of Exhibit "F" attached hereto and made a part hereof.

VIII.

INSURANCE

VIII-1. (a) All employees of OXY and/or all employees of those entities retained by OXY and who, for any purpose, are on Farmland's Enid Plant Site, during the term of this Agreement, shall be covered by workmen's compensation insurance, or maintain self-insurance where permitted by law. Such insurance coverage as described in this paragraph shall be at the sole expense of either OXY or those entities retained by OXY. In addition, OXY shall maintain Employer's Liability insurance of at least $1,000,000.00 per occurrence, Comprehensive General Liability with limits of at least $2,000,000.00 per occurrence, and Automobile Liability covering all owned, non-owned and hired vehicles, with limits of at least $2,000,000.00 per occurrence. With respect to the Comprehensive General Liability and Automobile Liability insurance, OXY agrees to name Farmland as an additional insured with respect to this Agreement. All coverages, including workman's compensation shall contain a waiver of subrogation in favor of Farmland. OXY, prior to coming onto Farmland's Enid Plant Site, shall furnish Farmland valid certificates of insurance certifying the above coverage or evidence satisfactory to Farmland that it is qualified to self-insure. In the event that it should be determined that OXY is qualified to self-insure, it is agreed that the intent of the provisions noted above concerning additional insured and waiver of subrogation shall apply to such self-insurance.

(b) All employees of Farmland and/or all employees of those entities retained by Farmland and who, for any purpose, are on the System Plant Site, during the term of this Agreement, shall be covered by workmen's compensation insurance, or maintain self-insurance where permitted by law. Such insurance coverage as described in this paragraph shall be at the sole expense of either Farmland or those entities retained by Farmland. In addition, Farmland shall maintain Employer's

Liability insurance of at least $1,000,000.00 per occurrence, Comprehensive General Liability with limits of at least $2,000,000.00 per occurrence and Automobile Liability covering all owned, non-owned and hired vehicles, with limits of at least $2,000,000.00 per occurrence. With respect to the Comprehensive General Liability and Auatomobile Liability insurance, Farmland agrees to name OXY as an additional insured with respect to this Agreement. All coverages, including workman's compensation shall contain a waiver of subrogation in favor of OXY. Farmland, prior to commencing operations at the System Plant Site, shall furnish OXY valid certificates of insurance certifying the above coverage or evidence satisfactory to OXY that it is qualified to self-insure. In the event that it should be determined that Farmland is qualified to self-insure, it is agreed that the intent of the provisions noted above concerning additional insured and waiver of subrogation shall apply to such self-insurance.

VIII-2. At any time after the Handover Date, when Farmland is not acting as operator of the System Facilities hereunder, OXY assumes all liability for and shall indemnify, protect, save, and keep harmless Farmland from and against all losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements, including legal expenses, of whatever kind and nature, imposed upon, suffered by (including damages suffered by Farmland's Enid Plant Site and the Farmland Enid Plant, and loss of nitrogen fertilizer production and CO_2 Gas production), incurred by, or asserted against Farmland caused by OXY, its agents, employees, invitees, servants or contractors, in any way relating to or arising out of either the System Facilities or System Plant Site. The indemnities contained in this paragraph shall continue in full force and effect, notwithstanding any termination of this Operation Agreement. At any time during the term of this Operation Agreement, for reasonable cause, such reasonable cause to be defined to include, but not be limited to, any future financial posture of OXY that differs materially and adversely from the present, Farmland shall be permitted to

require OXY (or OXY at its own election may choose) to obtain public liability insurance, in the amount and type as the parties shall mutually agree upon, in lieu of the indemnities contained in this paragraph.

IX.

PERMITS, AUTHORIZATIONS, AND CONSENTS

IX-1. Farmland undertakes to use its best efforts to obtain and retain all federal, state, and local permits, authorizations and consents necessary for the operation of the System Facilities. In the event that Farmland is unable to so obtain or retain all such necessary permits, authorizations and consents for the operation of the System Facilities, OXY shall have the option to operate the System Facilities in accordance with Section XI-3 hereof.

X.

BUILDINGS, TAXES THEREON

X-1. Any building, pipelines, or other property placed or installed on Farmland's Enid Plant Site by OXY or its predecessor or successor operators of the System shall in no event be construed as fixtures to the realty, but shall at all times be and remain moveable property and readily removable without damage to Farmland's Enid Plant or the Farmland Enid Plant Site. Any and all taxes or assessments of any type whatsoever assessed against or attributable to the System Facilities shall be paid by OXY promptly as required by law. OXY in its own name, or through Farmland where lawful shall have the right to challenge and/or have reviewed by any agency or court with jurisdiction, any taxes or assessments levied against the System Facilities or System Plant site, so long as such challenge or review does not advance a legal or factual position that is in conflict with

any legal or factual position maintained by Farmland in its own behalf. OXY shall notify Farmland in a timely manner of any such challenge or review, and shall reimburse Farmland in accordance with special services rendered. Neither party shall allow any lien or encumbrance of any type whatsoever to be placed on the System Facilities. OXY retains the right to remove any and all of its pipelines, building, and other property (the System Facilities) from Farmland's Enid Plant Site. Title to the System Facilities shall at all times remain in OXY, as operator of the System.

XI.

OXY'S RIGHT TO OPERATE

XI-1. In the event that Farmland is unable to operate the System Facilities after the Handover Date so as to achieve or maintain the performance capability and operating standards set forth in the Performance Standards of Exhibit "D", OXY shall have the right, but not the obligation, to take over the operation of and other services for the System Facilities. Such right by OXY to take over and operate the System Facilities exists only if Farmland shall fail to achieve or maintain the Performance Standards level within sixty (60) days after written notice of such operational deficiency is received from OXY. If a remedy to achieve or maintain the Performance Standards level cannot reasonably be affected within said sixty (60) days, but if Farmland has commenced and is diligently pursuing appropriate action during such sixty (60) day period and so long as Farmland shall continue to pursue such appropriate action, OXY shall have no right to take over and operate hereunder the System Facilities. If Farmland determines that operational deficiency is caused by design inadequacy while pursuing appropriate action described above, Farmland shall submit a recommendation for correcting the inadequacy to OXY. OXY must promptly agree with the recommendation or direct Farmland to use an alternate course of action. After completion of the action using either Farmland's

recommendation or OXY's alternative, a subsequent performance test will be carried out to reconfirm existing performance capability and operating standards or, if necessary, establish new performance capability and operating standards for the System Facilities.

XI-2. Farmland shall have the right on one year's written notice to abandon operation of the System Facilities. OXY shall have the right upon receipt of such notice to require a sooner abandonment date, at which abandonment date OXY shall have the right to take over the operation of and perform the other services for the System Facilities.

XI-3. If OXY exercises its right to take over and operate the System Facilities and System Plant site in accordance with Section XI-1 above or Section IX-1 hereof, Farmland shall, to insure the orderly transition of responsibility, for a reasonable time (not to exceed six (6) months from receipt by Farmland of notice of intent to take over operation) continue to supply personnel, existing roadway, and/or utility services, under the applicable terms hereof, needed by OXY during any transition period. If OXY exercises its right to take over and operate the System Facilities, under the circumstances as detailed above in Sections XI-1 or XI-2 or in Section IX-1 hereof, then the following provisions shall apply:

1. Farmland hereby grants to OXY an easement for location, access, operation, installation, maintenance, inspection and repair of the System Facilities, including a right to lease and occupy the System Plant Site, at an annual cost of $1,000.00 for such easement and lease, under the following conditions:

(a) Said easement, rights and this lease shall terminate concurrently with any termination provided for under this Agreement. Upon the termination of this Agreement, OXY shall deliver up the System Plant Site to Farmland in as good a condition as of the first date of occupancy thereof by OXY pursuant this Agreement, except for reasonable wear and

tear. Upon the termination of this Agreement, OXY shall, within a reasonable time after termination, remove all facilities, including buildings and support equipment on the System Plant Site, and all structures thereon above ground, and if necessary in order to allow Farmland to use such Site and if Farmland so desires, concrete slabs, footings, roadway construction, pavement, trackage, under ground conduits and piping, drainage construction and interconnections on the System Plant Site, leaving the System Plant Site in safe conditions and free from all trash and debris, and fill in all holes or excavations therein.

(b) In the event that OXY takes over operation and other services for the System Facilities as described herein, OXY and its employees shall not have the right to gain access to said System Plant Site over the right-of-way designated for that purpose and shown on the Plan. Instead, OXY will be granted a separate and different right-of-way from that shown on the Plan, and shall be required to construct a road of sufficient quality, at the sole cost of OXY, to reasonably provide for OXY employees and equipment to gain ingress and egress to said System Plant Site. Such road shall be entirely fenced, in a manner acceptable to Farmland, at the sole cost of OXY.

(c) In the event that OXY takes over operation and other services for the System Facilities as described herein, OXY shall erect or cause to be erected a fence, acceptable to Farmland, around the System Plant Site or portions of the System Plant Site, as designated by Farmland.

(d) In the event that OXY takes over operation and other services for the System Facilities as described herein, OXY shall be required to obtain in its own name and behalf, all federal, state, and local permits, authorizations, and consents which are necessary to so obtain for the operation of the System Facilities. OXY shall not have the contractual right to

operate the System Facilities pursuant to any federal, state, and local permits, authorizations and consents obtained or retained by Farmland for operation of the System Facilities.

(e) If OXY takes over operation and other services for the System Facilities as described herein, OXY shall not have the contractual right to commingle process or waste water streams from the System Facilities with any Farmland process or waste water streams.

(f) In the event that OXY takes over operation and other services for the System Facilities as described herein, OXY shall be required to handle and treat sewage and effluent, of any and all types whatsoever, wholly separate and apart from any Farmland facilities, and shall be solely and exclusively responsible for sewage and effluent disposal for the System Facilities.

2. At such times as OXY is operating the System Facilities, the following shall also apply:

(a) OXY shall take over the responsibility for, including all costs described in Article VI of the Agreement, and the cost of providing personnel, and all other costs of any nature whatsoever to provide operational, and all other services for the System Facilities, interconnections and System Plant Site.

(b) All terms and provisions of paragraph VIII-3.

XII.

FORCE MAJEURE

XII-1. In the event that either Farmland or OXY is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, it is agreed upon notice and reasonably full particulars of such force majeure given by one party to the other in writing within a reasonable time after the occurrence of the cause relied upon that obligations of such party, insofar

as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall be remedied so far as possible with all reasonable dispatch.

XII-2. The term "force majeure" as employed herein shall mean acts of God, lockouts or other industrial disturbances, acts of the public enemy, wars, riots, blockades, insurrection, strikes, or differences with workmen, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, restraints of government, federal or state, civil or military, civil disturbances, explosions, breakage or accidents to machinery or lines of pipe, the necessity or desirability of making repairs to or alterations of machinery, equipment, or lines of pipe, failure of sources of supply of gas, repairs, replacement, alteration of pipelines, interference by civil or military authorities, legal or defacto, whether purporting to act under some constitution, decree, law, regulation, rule or otherwise, failures, disruptions, or breakdowns of machinery or of facility of production, manufacture, and transportation, and without limitation by enumeration, any other causes or causes, whether of the kind enumerated or otherwise, not reasonably within control of the party claiming suspension and which by the exercise of due diligence such party is unable, wholly or in part, to prevent or overcome; provided, however, the term "force majeure" does not mean or include any cause which by the exercise of reasonable diligence the party claiming suspension could overcome. It is understood and agreed that the settlement of strikes, lockouts, other labor disputes or differences with workmen shall be entirely with the discretion of the party having the difficulty and the above requirements that any force majeure must be remedied with all reasonable dispatch or that must be a cause which can be prevented by the exercise of reasonable diligence shall not require the settlement or prevention of strikes, lockouts or other labor disputes by acceding to the demand of opposing parties when such course is inadvisable in the sole discretion of the party having the difficulty.

XII-3. In the event that either Farmland or OXY is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Operation Agreement, then, in addition to suspension of obligations as described in XII-1, all obligations of Farmland and OXY to each other under the CO_2 Contract are also suspended in their entirety.

XIII.

ASSIGNMENT

XIII-1. All of the terms, conditions, and provisions hereof shall extend to and be binding upon the respective parties thereto, their successors and assigns; provided, however, that neither party shall assign this Agreement or any interest herein without the prior written consent of the other party being first had and obtained, which consent shall not be unreasonably withheld, except that either party may, without the consent of the other, assign this Agreement or any interest herein to any of its subsidiaries or affiliated companies or to a corporation with which such party merges.

XIV.

CONSEQUENTIAL DAMAGES

XIV-1. No breach of any obligation under this Operation Agreement shall cause either Farmland or OXY or any of the owners of the System to be liable to the other for any consequential damages suffered, including loss of use, or anticipated profits.

XV.

MATERIAL BREACH OF THE AGREEMENT

XV-1. During the term of this Agreement, a material breach of this Agreement will be deemed to have occurred:

(a) Upon the failure of either party to this Agreement to fully and completely perform its obligations under this Agreement;

(b) Upon the commencement of bankruptcy, insolvency, reorganization, or liquidation proceedings against either party, or if a receiver is appointed for either party;

(c) Upon the filing by any person or entity of any attachment on the System Facilities, or the initiation of any foreclosure proceeding on the System Facilities.

Upon material breach of the Agreement, the parties to this Agreement shall have available to them any and all remedies available in law and equity, except as specifically provided otherwise herein.

XVI.

LIABILITY

XVI-1. OXY, as operator of the System shall indemnify and save Farmland harmless from all claims and actions by third parties against Farmland for property damage, personal injury, or death sustained by anyone arising out of, or connected with the construction of the System Facilities; or the maintenance and/or operation of the System Facilities hereunder, when operated by OXY, as described herein. In addition, OXY shall indemnify and/or pay damages to Farmland for any type of loss whatsoever, or damage to Farmland's Enid Plant or the Enid Plant Site arising out of, or connected with: construction of the System Facilities; or the maintenance and/or operation of the System Facilities hereunder when operated by OXY, as described herein. Indemnification herein, is separate from and in addition to any other indemnification contained in this Agreement.

XVI-2. Farmland shall indemnify and save OXY and all owners of the System harmless from all claims and actions by third parties against OXY for property damage, personal injury, or death sustained by anyone arising out of, or connected with operation of the System Facilities hereunder, while Farmland is operator of the System Facilities herein. In addition, Farmland shall indemnify and/or pay damages to OXY for any type of loss whatsoever, or damage to the System Facilities or the System Plant Site arising out of, or connected with operation of the System Facilities hereunder, while Farmland is operator of the System Facilities hereunder. Indemnification herein, is separate from and in addition to any other indemnification contained in this Agreement.

XVII.

PATENT INDEMNITY

XVII-1. OXY agrees to indemnify Farmland against liability for infringement upon any Letters Patent of the United States arising out of, or connected with construction, maintenance or operation of System Facilities hereunder during the term of this Agreement; provided that Farmland promptly notifies OXY of any claim (including any threat thereof) of any such infringement, permits OXY to assume sole response, defense and settlement thereof, and cooperates with OXY with respect to any such response, defense or settlement thereof.

XVIII.

MISCELLANEOUS

XVIII-1. OXY agrees that if, pursuant to the terms and conditions of its existing site lease Farmland should not be in control of nor be the operator of the Enid Plant after September 23, 2003, this agreement shall be terminated in its entirety, and shall have no further force and effect;

provided, Farmland shall give OXY immediate notice when Farmland has knowledge that it may or will no longer be in control of or operator of the Enid plant.

XVIII-2. During the Term of this Agreement, while Farmland is operating the System Facilities, Farmland will incorporate the waste water from the cooling tower of the System Facilities, (provided that such waste water is incorporable with other Farmland wastes at the Enid Plant under the Enid Plant operating permits) and dispose of it with no treatment or incorporation charge to OXY.

XVIII-3. Any costs incurred by Farmland caused by changes from the initial, approved system as defined in Exhibit "B" constitute amounts due and owing herein and are separate and apart from any other pricing provisions of this Agreement.

XVIII-4. While operating the System Facilities, Farmland agrees to be bound by the terms of Exhibit "G" Equal Opportunity and Affirmative Action, attached hereto and made a part hereof.

XVIII-5. During the term of this Agreement, OXY is not, and shall not hold itself out to the public as the agent, representative, or employee of Farmland. The parties to this Agreement are not affiliated in any manner whatsoever, and specifically have not herein entered into any type of partnership or joint venture arrangement.

XVIII-6. During the term of this Agreement, Farmland is not, and shall not hold itself out to the public as the agent, representative, or employee of OXY. The parties to this Agreement are not affiliated in any manner whatsoever, and specifically have not herein entered into any type of partnership or joint venture arrangement.

XVIII-7. Any provision of this Agreement found to be prohibited by law shall be ineffective to the extent of such prohibition without invalidating the rest of this Agreement.

XVIII-8. During such time when Farmland is operator hereunder, Farmland shall have the sole and exclusive right to select processes for treatment of cooling water, sewage and effluent in the System Facilities, prior to its commingling with Farmland waste streams for disposal. Processes selected will be those in general practice or those practiced in other operating parts of the Enid Plant.

XVIII-9. It is recognized that, from time to time, water may be curtailed to the Enid Plant and Enid Plant Site. If in the future, water is curtailed to the Enid Plant or Enid Plant Site, water available to the System Facilities and System Plant Site will be curtailed on the same percentage, pro rata basis as experienced by the Farmland Enid Plant or Enid Plant Site.

XVIII-10. Farmland retains exclusive ownership and all rights to all water condensed (Process Condensate) from the CO_2 Stripper Overhead stream, and may operate the condensing system to a maximum rate of 500 gpm independent of the compressor station. OXY will furnish necessary equipment within the System Facilities to return the Process Condensate to the matchpoint to 115 psig without temperature limitation.

XVIII-11. OXY for itself and its successors and assigns, hereby understands and agrees that all of its right, title and interest in and to the Enid Plant and/or Enid Plant Site pursuant to this Agreement and any other instrument executed in connection with such premises, the improvements thereon and operation thereof, including without limitation any leases, subleases, licenses, rights and easements granted by Farmland, and any other agreement with respect to any of the foregoing, are and shall be junior, subordinate and subject to that certain Site Lease dated September 23, 1991 between Seller and First Chicago Leasing Corporation and the related Facility Lease of the same date between Farmland and The First National Bank of Chicago in all respects for the full initial term of the Site Lease and any and all extensions and renewals thereof.

Farmland represents that nothing in the Site Lease shall alter the terms of Article X hereof, nor will it operate in any way to affect title to the System Facilities from remaining in OXY, nor will it affect OXY's right to remove the System Facilities from the Enid Plant Site. Farmland agrees to promptly provide OXY with copies of all notices of default, elections or other correspondence regarding the Site Lease which may affect this Agreement or OXY's rights hereunder.

XIX.

COMPLIANCE WITH LAW

XIX-1. This Agreement shall be interpreted under the laws of the State of Oklahoma. Farmland and OXY shall obey and abide by all of the laws, rules and regulations of governmental authority having jurisdiction, federal, state, and local.

XX.

NOTICES

XX-1. All notices hereunder shall be in writing and shall be delivered by certified mail, telegram, or in person to:

Farmland Industries, Inc.
P.O. Box 308
Lawrence, Kansas 66044
Attention: General Manager, Nitrogen Operating

OXY USA Inc.
105 North Hudson
Suite 1001
Oklahoma City, Oklahoma 73102
Attention: CO2 Operations Manager

Notice by certified mail shall be deemed delivered on the day that it is post marked. Notice by facsimile shall be deemed effective on the day it is received. If notice is delivered in person, it shall be deemed effective when received. Operational advice of a routine nature may be made to the Farmland Enid Plant manager by a duly designated representative of OXY, and must be confirmed in writing to the plant manager on the same day.

XXI.

ENTIRE CONTRACT

XXI-1. The entire Agreement is contained herein and there are no oral promises, representations, or other warranties affecting it. No amendment or modifications of any of the terms and provisions of this Agreement shall be binding upon either Farmland or OXY unless the same be expressed in writing and signed by both Farmland and OXY.

IN WITNESS WHEREOF, the parties hereto have caused this Operation Agreement to be duly executed as of the day and year first above written.

OXY USA INC.

By _____

Title:

FARMLAND INDUSTRIES, INC.

By: _____

Title:

EXHIBIT I

CO2 Contract

AGREEMENT FOR SALE AND PURCHASE OF CO_2 BETWEEN OXY USA INC. AND HENRY PETROLEUM CORPORATION

This Agreement ("Agreement") is made and entered into on this 23 day of August, 1996 by and between OXY USA Inc. ("Seller") and Henry Petroleum Corporation ("Buyer").

WITNESSETH:

WHEREAS, Seller represents that Seller has acquired the right to purchase available Carbon Dioxide ("CO_2") from Farmland Industries, Inc. ("Farmland") at Farmland's ammonia fertilizer plant, located near the city of Enid in the Southwest Quarter of Section 17, Township 22 North, Range 5 West, Garfield County, Oklahoma ("the Plant"); and

WHEREAS, Seller is the operator of the Northeast Purdy Springer Sand Unit "A" located in Garvin County, Oklahoma ("Purdy Unit"), and Buyer is operator of the East Velma West Block Sims Sand Unit located in Stephens County, Oklahoma ("Velma Unit"), and the two units are the owners of CO_2 gas pipeline delivery system ("System") pursuant to that certain Amended and Restated Articles of Agreement - Enid to Velma/Purdy CO_2 Delivery System dated _____, 1996, by and between the Purdy Unit and the Velma Unit ("System Agreement").

WHEREAS, Seller desires to sell and Buyer desires to purchase certain available quantities of CO_2 hereinafter upon the conditions, covenants and agreements herein provided.

NOW, THEREFORE, in consideration of the conditions, covenants and agreements herein set forth, Seller and Buyer hereby agree as follows:

ARTICLE 1

SCOPE

1.1 Buyer contemplates undertaking or continuing one or more oil recovery projects (herein referred to as "Tertiary Recovery" projects) utilizing CO_2 injection, and Buyer desires to contract with Seller for the purchase of CO_2. The CO_2 sold to Buyer hereunder shall be used solely as a tertiary recovery media through the year 2000. Subsequent to the year 2000, Buyer agrees that not more than fifty percent (50%) of Buyer's daily volume of CO_2 purchased at any time hereunder shall be utilized for projects other than the tertiary recovery of oil.

1.2 Seller's supply of CO_2 is being obtained pursuant to that certain Carbon Dioxide Purchase Contract dated April 26, 1993, as amended, between Seller and Farmland Industries, Inc. ("the Farmland Contract"). This Agreement is subject to the availability and

actual receipt of CO_2 by Seller pursuant to the Farmland Contract. For the purposes of this Agreement it is stipulated that Seller's supply of CO_2 under the Farmland Contract is One Thousand Seven Hundred (1700) tons per day, less any reductions provided for therein ("Seller's Supply"). Should Seller's Supply of CO_2 become interrupted or no longer available to Seller, for whatever reason and regardless of fault, Seller's obligations to Buyer and Buyer's obligations to Seller (except for payment of CO_2 received) shall in a like manner be interrupted or suspended. Any reduction or curtailment by Farmland of Seller's Supply may be shared, at Seller's option, by Seller with Buyer; provided, however, that any such reduction or curtailment of Buyer's Contract Volume then in effect can not be greater than the percentage that Seller's Supply then in effect is reduced or curtailed by Farmland. Any reduction in the CO_2 made available by the Seller to the Buyer shall serve to reduce the Buyer's nominated Contract Volume (as defined in Article 3.1) by a like amount. Buyer has been expressly advised that Farmland has rights under the Farmland Contract which might result in a change of the amount of CO_2 delivered under the Farmland Contract and under this Agreement. Those rights include, but are not limited to

1. Effective January 1, 1999, or any time thereafter, Farmland has the option to reduce Seller's Supply by an amount not to exceed two hundred (200) tons per day. If fully exercised, this option would reduce Seller's Supply to an amount not less than fifteen hundred (1500) tons per day, less any other reductions provided for in the Farmland Contract..
2. Farmland is currently leasing its plant subject to an option to purchase under the lease which expires September 23, 2003. If the option is not exercised, the Farmland Contract will terminate.
3. Effective October 1, 2004, or any time thereafter, Farmland has the option to reduce Seller's Supply by an amount not to exceed seven hundred (700) tons per day (inclusive of any reductions exercised in subparagraph 1 above). If fully exercised, this option would reduce Seller's Supply to an amount not less than one thousand (1000) tons per day, less any other reductions provided for in the Farmland Contract.

ARTICLE II
TERM

2.1 Subject to the other provisions hereof providing for earlier termination, the term for delivery of CO_2 pursuant to this Agreement shall extend until December 31, 2016. The obligations for payment for CO_2 taken pursuant to this Agreement shall continue until satisfied in accordance with the Agreement. Buyer may cancel this Agreement at any time by giving to Seller

thirteen (13) months written notice prior to the beginning of any Contract Period. "Contract Period" shall mean the calendar year (or a lesser period with respect to the first such period which ends December 31, 1996).

ARTICLE III
BUYER'S PURCHASE OBLIGATION

3.1 The term "Contract Volume", as used herein, shall mean the particular volume of CO_2 nominated by the Buyer pursuant to the provisions of Article 3.3 below for each Operating Day (as hereinafter defined) for a particular Contract Period. The Contract Volume may otherwise be adjusted pursuant to the provisions of Article I, Article III, Article VII, and Article XI. In the event the term "Contract Volume" is used in relation to any period greater than a day, then the volume of CO_2 constituting the Contract Volume shall be the sum of the Contract Volume for each such Operating Day (as may or may not be adjusted) within such period. An "Operating Day" shall mean any consecutive 24-hour period, beginning at 8 a.m., Central Time, on or after the Commencement Date during which Farmland Industries, Inc.'s plant is being operated to produce anhydrous ammonia. Seller shall have no obligation to make available to Buyer volumes of CO_2 in excess of the Contract Volume during any Contract Period save and except as provided for in Article 3.8. In the event that the volume of CO_2 made available to Seller by Farmland pursuant to the Farmland Contract is less than Seller's Supply then in effect for any Operating Day, then, at Seller's option, Buyer's Contract Volume for such Operating Day may be adjusted downward by the same percentage that Seller's Supply is adjusted downward.

3.2 "Commencement Date" shall be no later than ninety (90) days after Seller gives notice to Buyer that it is prepared to deliver CO_2. Subject to the other provisions of this Article III, Seller agrees to make available, as of the Commencement Date and continuing for the term hereof, a quantity of CO_2 equaling the Contract Volume in effect for each Operating Day during each month of any Contract Period and Buyer agrees to take and pay for, or pay for if available and not taken, not less than ninety percent (90%) of such quantity of CO_2.

3.3 The Contract Volume shall be determined each Contract Period by the nomination of the Buyer. Simultaneously with Buyer's execution of this Agreement, Buyer shall nominate to Seller in writing as to its nominated Contract Volume for Contract Periods consisting of the calendar years 1996 and 1997. For the remaining term of the Agreement, Buyer shall nominate its Contract Volume to Seller in writing not later than thirteen (13) months (i.e., November 30) prior to the applicable Contract Period. Should Buyer fail to timely nominate to Seller as provided herein before for any Contract Period, Buyer shall be deemed to have nominated the maximum Contract Volume permitted under this Agreement for such Contract Period. If the Buyer shall nominate a Contract Volume of zero (0.0) mmcfd for any Contract

Period, then this Agreement shall be considered to have terminated as of the last day preceding the Contract Period for which zero (0.0) mmcfd has been nominated and all future obligations between the Buyer and the Seller with regard to this contract shall be terminated after receipt of the final payment due Seller by Buyer for volumes delivered or obligated to have been paid by Buyer. The maximum and minimum amount of CO_2 which may be nominated by Buyer as the Contract Volume for a particular Contract Period are as follows:

Year	Maximum (mmcf/d)	Minimum (mmcf/d)
1996	6	4
1997	7	5
1998	8	6
1999	9	7
2000-2016	10	2.5

Provided, however, that if at any time for the Contract Periods consisting of the calendar years 2000 through 2016 Buyer nominates a Contract Volume of less than 10 mmcf/d, then the amount so nominated becomes the new maximum amount of CO_2 that Buyer can nominate for the remaining term of the Agreement. Should Buyer at any time subsequent thereto nominate a Contract Volume less than the new maximum amount of CO_2, then such lesser volume shall be the maximum amount of CO_2 that Buyer can nominate for the remaining term of the Agreement.

3.4 If Buyer should nominate a Contract Volume greater than zero (0.0 mmcfd) but less than the minimum amount of CO_2 provided in Article 3.3 above, Seller may elect within thirty (30) days and at its option and upon written notice of intent to the Buyer, treat such nomination as a notice of termination as provided under Article 2.1 or treat such nomination as an election of the minimum Contract Volume for such Contract Period. As specified in Article 3.3 above, a nomination of zero (0.0) mmcfd by the Buyer shall serve as notice of termination of this Agreement between Buyer and Seller.

3.5 The total quantity of CO_2 required to have been taken by Buyer under this Agreement shall be determined as of January 1 and July 1 of each Contract Period ("Determination Date") for the previous six (6) month period (or lesser period in the case of the first such determination) ("Determination Period"). If the quantity actually taken and paid for by Buyer is found to be less than ninety percent (90%) of the cumulative total of the Contract Volume for each Operating Day of the Determination Period, then the difference between the quantity of CO_2 actually taken and paid for during such Determination Period and ninety percent (90%) of the cumulative total of the Contract Volumes for each Operating Day of such Determination Period shall be referred to as a "Deficiency" for that Determination Period. If its is determined by Seller that a Deficiency exists, then within thirty-one (31) days after a

Determination Date, Seller shall render Buyer a statement showing in reasonable detail: (1) the cumulative total of the Contract Volumes for each Operating Day of the previous Determination Period, (2) the quantity of CO_2 actually taken and paid for by buyer during such Determination Period, and (3) the amount of the Deficiency. Buyer shall pay Seller within thirty-one (31) days of receipt of the statement for such Deficiency the same price per one thousand standard cubing feet (mscf) as in effect during the relevant Determination Period, such price having been calculated in accordance with Article 4.1 hereof. Should Buyer fail to pay such Deficiency when due, Seller may, at its option, terminate this Agreement upon thirty-one (31) days prior written notice to Buyer. If Buyer pays the Deficiency within such thirty-one (31) day notice period plus a two percent (2%) penalty, this Agreement shall continue in full force and effect. If Seller fails to notify Buyer of a Deficiency within thirty-one (31) days following the end of a Determination Period, then Buyer shall have one additional day for each day such notice is delinquent within which to make up any Deficiency for that previous Determination Period. Provided, however, if Seller does not notify Buyer of a Deficiency within ninety (90) days following a Determination Date, then it shall be deemed that no Deficiency existed for the previous Determination Period. Any termination of this Agreement shall not relieve Buyer from its obligation to pay for any Deficiency, provided notice of such Deficiency was provided within ninety (90) days following the appropriate Determination Date, or its obligation to pay for any CO_2 taken and not paid for.

3.6 During the six (6) consecutive months following a Determination Period (i.e. during the subsequent Determination Period) during which a Deficiency is paid for as provided in Article 3.5 above, all CO_2 taken by Buyer which is in excess of ninety percent (90%) of the Contract Volume for any such determination period ("Make Up Volumes") shall be without charge to Buyer until the Make Up Volumes so received shall equal the amount of the Deficiency for which payment has been made. Such Make Up Volumes shall be applied to the Deficiency volumes in the order that they were incurred. In the event that any Deficiency is not "made up" as provided herein it shall be deemed unrecoverable.

3.7 If at any time Buyer is not taking CO_2 which is part of its Contract Volume, and Seller has another market for such gas, Seller shall have the option to market such gas for the Seller's account for the period of time that Buyer is not taking, and any such volumes of CO_2 so marketed shall be credited to Buyer as a "quantity of CO_2 actually taken by Buyer" for such month or months.

3.8 Should a deficiency occur, Seller agrees to make available to Buyer in the next Determination Period (i.e. the period during which Make up Volumes are being taken), any CO_2 volumes above Buyer's Contract Volume which the Seller is required to take or pay for under the Farmland Contract but which Seller is not otherwise using or selling to third parties, and any such volumes taken by Buyer shall be included as Make Up Volumes until the Deficiency is either

"made up" or the six (6) month make up period expires. In instances where any volumes of CO_2 are taken by Buyer from Seller in excess of the Contract Volume then in effect, such volumes shall be subject to all of the terms and conditions of this Agreement; provided that except as set forth in this Article 3.8, nothing herein should be construed to entitle Buyer to any volume of CO_2 in excess of the Contract Volume.

3.9 In the event that on any Operating Day the CO_2 taken by Buyer is less than the Contract Volume in effect for such day by reason of (i) non-availability of CO_2, (ii) force majeure, or (iii) reduced or suspended takes by Buyer under the provisions of Article VII hereof, then the Contract Volume for such day will be reduced accordingly.

3.10 The Buyer's entire Contract Volume of CO_2 shall be deemed available to the Buyer for any Operating Day if the average daily delivery pressure of the System at the Purdy Tee (or alternate point of delivery on the System as agreed to by Buyer and Seller) shall be equal to or greater than 1325 pounds per square inch (psi) (or some other mutually agreed upon pressure for delivery points on the System different from the Purdy Tee) for such Operating Day. If the average daily delivery pressure is less than 1325 psi at the Purdy Tee (or some other mutually agreed upon System delivery point and pressure) for any Operating Day, then the actual delivery of CO_2 to the Buyer by the System operator at the Purdy Tee shall be deemed the amount of CO_2 available for sale to the Buyer during that Operating Day, and the Contract Volume for that Operating Day shall be reduced accordingly. Provided, however, this Article 3.10: (1) shall apply only while Seller is operator of the System, and (2) shall not apply to situations where the delivery pressure of the System has been interrupted by incidents beyond the control of the System operator including, but not limited to, ruptures or leaks in the System, acts of third parties or events of force majeure as defined in Article XI.

3.11 Should Buyer, its parent, subsidiaries and affiliates obtain volumes of CO_2 from a source in Oklahoma other than Seller, Buyer shall notify Seller as to the volumes within thirty (30) days after being contracted for, and Seller shall have an option for thirty (30) days after receipt of such notice to elect to reduce the Contract Volume to Buyer under this Contract by a like amount.

ARTICLE IV
PRICE

4.1 The initial price ("Base Price") charged to Buyer for the delivered CO_2 is fifteen cents ($0.15) per one thousand (1,000) standard cubic feet (mcf) for the first five million standard cubic feet per day (5 mmcf/d) of the Contract Volume and twenty cents ($0.20) per one thousand (1,000) standard cubic feet (mcf) for all additional amounts of CO_2 in excess of five million cubic feet per day. Each January 1, beginning on January 1, 1997, during the life of this Agreement, an adjustment will be made to the price charged for the CO_2 using the following criteria and formula:

New Price of CO_2 = BP x (AOP/BOP), where:
BP = Base Price of CO_2 (as specified above)
AOP = Average Oil Price ($/STB) [The average oil price of 40° West Texas Intermediate Oil for the previous calendar year, as derived in Article 4.2, 4.3 and 4.4 herein below]
BOP = Base Oil Price ($17.00/STB)
STB = Stock Tank Barrel

Provided, however, in no event shall the price for delivered CO_2 ever be less than the Base Price and, further provided that the New Price of CO_2 as calculated above shall be increased by an additional ten percent (10%) when the Average Oil Price is greater than twenty-five dollars per Stock Tank Barrel ($25/STB).

4.2 The Average Oil Price calculation is the arithmetical sum of the daily 7:00 a.m. prices per barrel (exclusive of any and all federal, state or local taxes) posted by Atlantic Richfield Company (ARCO), Enron Oil Trading and Transportation Company (EOTT), and Amoco Production Company (AMOCO) for West Texas Intermediate Oil of forty degree (40) gravity for the previous Contract Period (or in the case of the initial Contract Period, the entire 1996 calendar year), divided by the number of days in that Contract Period.

4.3 In the event the price of West Texas Intermediate Oil of forty degree (40) gravity is at any time during the life of this Agreement subject to or controlled by regulation or statute of the federal or state government, then the parties hereto shall mutually agree upon a method to arrive at the value in the field for forty degree (40) gravity West Texas Intermediate Oil or its equivalent, which value shall be used in lieu of the aforesaid arithmetical average of posted prices for the purpose of determining the price of the CO_2 subject hereto.

4.4 If one or more, but not all, of the companies named in Article 4.2 above, cease to post such prices, a substitute company or companies shall be mutually agreed upon from among other major purchasers who post prices for such oil. If Seller and Buyer are unable to reach an agreement for a period of sixty (60) days after a substitute company or companies is first

nominated by Buyer or Seller, the price postings by the remaining named company or companies shall be used in computing the relevant price for West Texas Intermediate Oil of forty degrees (40) gravity until an agreement is reached. In the event all of the above named companies cease posting prices for such oil, then the parties hereto shall mutually agree on a method to arrive at the value in the field for West Texas Intermediate Oil or its equivalent of forty degree (40) gravity, which value shall be used in lieu of the aforesaid arithmetical average of posted prices for the purpose of adjusting the price of the CO_2 subject hereto. If no substitute companies have been agreed upon within sixty (60) days, then the prices of the three (3) largest purchasers, by volume, then posting prices for West Texas Intermediate Oil of forty degree (40) gravity shall be used in computing the relevant price for such oil.

ARTICLE V
BILLING AND PAYMENT

5.1 On or before the last day of each month following the Commencement Date, Seller shall render to Buyer a statement showing, for the preceding calendar month, (1) the Contract Volume for that month; (2) the quantity of CO_2 actually taken during such month by Buyer as determined at the Point of Measurement (as hereinafter defined); and (3) the amount due Seller therefor. Seller's statement shall also contain the amount of any Deficiency for the prior Determination Period and adjustments thereto as a result of any Make Up Volumes taken for that monthly period. Upon receipt of such statement, Buyer shall within thirty (30) days make payment to Seller in accordance with the terms thereof. Should Buyer fail to pay such statement when due, Seller may, at its option, terminate this Agreement upon the expiration of a grace period consisting of thirty (30) days after written notice to Buyer. If during such grace period Buyer pays such statement in full, plus a penalty of two percent (2%) of such statement amount, this Agreement shall continue in full force and effect.

ARTICLE VI
MEASUREMENT POINT

6.1 Delivery of, title to, ownership of, and risk of loss of CO_2 sold by Seller to Buyer hereunder shall pass at the Quantity Measurement Meter located at the outlet side of the System's compressor plant, intended to be the same point at which Seller obtains title of the CO_2 gas from Farmland ("Point of Sale").

6.2 Notwithstanding the delivery of CO_2 as provided in Article 6.1, the parties agree that in order to determine the quantity of CO_2 taken by Buyer (for monthly billing and Deficiency purposes only), such quantity shall be the sum of all volumes actually measured by the Quantity Measurement Meters located at those points of delivery to the Buyer along the System

as permitted under the System Agreement ("Point of Measurement") and shall not include any allocation of other meters on the System in which the Buyer has no ownership. Provided, however, this Article 6.2 shall apply only as long as the Seller is the operator of the System. Should someone other than the Seller become operator of the System then Point of Measurement shall be at the Point of Sale in a manner to be determined at that time. Provided, further, that should there be a leak or rupture on the System it is agreed that the parties shall proportionally share in any loss of CO_2 as a result thereof.

ARTICLE VII
QUALITY

7.1 It is estimated that under normal operations, the CO_2 available will contain more than ninety-eight percent (98%) carbon dioxide together with minor quantities of hydrogen, methane, ethane, nitrogen, hydrogen sulfide [not to exceed one (1) grain per one hundred (100) standard cubic feet (scf)] and propane and heavier hydrocarbons. Buyer acknowledges that gas of such composition will be satisfactory for its use and shall not be rejected as not meeting Buyer's specifications. It is understood and agreed that Seller makes no representation and does not guarantee the composition of the CO_2. In the event impurities in the CO_2 delivered hereunder at any time exceed two percent (2%), Buyer shall notify Seller and Buyer may thereupon reduce or suspend its takes of CO_2 resulting in a corresponding reduction of the Contract Volume as provided in Article 3.9. Seller shall have one hundred eighty (180) days to seek reduction of said impurities to less than two percent (2%). In the event Seller is unable to so reduce said impurities and the CO_2 delivered should be of such composition that, in the sole opinion of Buyer, it is not adaptable for use by Buyer then Buyer may continue to reduce or suspend its takes of CO_2 resulting in a corresponding reduction of the Contract Volume as provided for in Article 3.9; provided, however, that in such event either party may terminate this Agreement upon giving ninety (90) days written notice to the other.

ARTICLE VIII
MEASUREMENT AND COMPUTATION OF VOLUMES

8.1 All measurement of CO_2 hereunder shall be in accordance with the specifications prescribed by Report No. 3 of the Gas Measurement Committee of the American Gas Association, dated April, 1955, as amended, and appendix thereto. The Quantity Measurement Meter and all meter readings and meter charts shall be accessible at all reasonable times to inspection and examination by the parties hereto.

8.2 The Quantity Measurement Meter shall be calibrated at least once each thirty (30) days by Farmland or Seller. Seller shall give Buyer notice of each such calibration test as

soon as practicable after notice is given by Farmland to Seller. Buyer, if it so chooses, may have its representative present to witness such test. If upon any such test the Quantity Measurement Meter is found to be no more than two percent (2%) erroneous, previous readings of such Quantity Measurement Meter shall be considered correct in computing deliveries hereunder, but such quantity Measurement Meter shall be adjusted at once to read accurately. If upon any test the Quantity Measurement Meter shall be found to be inaccurate in the aggregate by an amount exceeding two percent (2%) at a reading corresponding to the average rate of flow for the period since the last preceding test, then any previous reading of such Quantity Measurement Meter shall be corrected to zero error for any period which is known definitely or agreed upon, but in case the period is not known definitely or agreed upon, then for a period extending back one-half (½) of the time elapsed since the date of the last test. If for any reason the Quantity Measurement Meter is out of repair, so that the volume of CO_2 cannot be ascertained or computed from the reading thereof, the volume of CO_2 purchased during the period such meter is out of repair shall be estimated on the basis of the best data available, using the first of the following methods which is feasible: (i) by using the registration of check meter, if installed and accurately registering; (ii) by correcting the error in Quantity Measurement Meter, if the percentage of error is ascertainable by calibration test or mathematical calculations; or (iii) by estimating the volume of CO_2, using as a basis the volumes delivered during preceding periods under similar conditions when the Quantity Measurement Meter was registering accurately.

8.3 Buyer may install, maintain, and operate at its sole risk and expense such check measuring equipment as it desires, provided that such check meter and equipment shall be so installed as not to interfere with the operation of the Quantity Measurement Meter.

8.4 The unit of volume for all measurement purposes hereunder shall be one thousand (1,000) standard cubic feet (mscf) of CO_2 at an absolute pressure of fourteen and sixty-five hundredths pounds (14.65#) per square inch at a temperature of sixty degrees (60) Fahrenheit. For the purpose of converting measured volumes of CO_2 from cubic feet to tons, it shall be deemed that one (1) ton of CO_2 at the above given temperature and pressure contains seventeen thousand three hundred (17,300) standard cubic feet of CO_2.

8.5 All measurement of CO_2 hereunder shall be in accordance with the recommendations for measuring gas contained in Report No. 3 of the Gas Measurement Committee of the American Gas Association, dated April 1955, including the appendix thereto, applied in a practical and appropriate manner.

8.6 For the purpose of measurement, the average absolute atmospheric (barometric) pressure shall be assumed to be fourteen and two-tenths pound (14.2#) per square inch, regardless of the actual elevation or location of the measurement point above sea level or of variations in such barometric pressure from time to time. The temperature of the CO_2 flowing

through the meter or meters shall be determined by the use of a recording thermometer of standard manufacture installed by Seller so that it may properly record the temperature of the CO_2 flowing through the Quantity Measurement Meter at the point of measurement. The arithmetical average of the twenty-four (24) hour record, or of that portion of the twenty-four (24) hours during which CO_2 was passing, if CO_2 had not been passing during the entire period, from the recording thermometer shall be taken to be the temperature for the day and shall be used to make proper corrections in volume computations. The specific gravity of the CO_2 delivered hereunder shall be determined by periodic tests or, at Buyer's option, by use of a recording gravitometer to be installed by Buyer, but maintained and operated by Seller, at Buyer's expense, at the point of measurement hereunder. If a recording gravitometer is used the arithmetical average of the hourly specific gravity during each twenty-four (24) hour period, or during that period in which CO_2 was actually passing, shall be used to make proper computations of the volume of CO_2 delivered hereunder.

8.7 Buyer has the right to review all measurement data, at Buyer's request to Seller. Such review shall be done during normal business hours. Each item of measurement data shall be retained by Seller for at least two (2) years after it is obtained.

8.8 Buyer hereby grants to Seller and Seller hereby grants to Buyer, (and to their respective subcontractors) to the extent each has the right so to do, full right of ingress and egress across properties of the other (or those of a third party, if applicable) for the purposes of carrying out any rights or obligations under this Article VIII.

ARTICLE IX
TITLE

9.1 Seller hereby warrants title to the CO_2 sold hereunder and the right of Seller to sell same, and Seller warrants that all such CO_2 is free from all liens and adverse claims.

ARTICLE X
INDEMNITY

10.1 As between the parties hereto, Seller shall be deemed to be in exclusive control and possession of the CO_2 prior to delivery at the Point of Sale and shall hold Buyer harmless against any injury or damage caused thereby until same shall have been delivered to Buyer at the Point of Sale, after which Buyer shall be deemed to be exclusively in control and possession thereof and shall hold Seller harmless against any injury or damage caused thereby. Provided, however, nothing in this Agreement shall be interpreted to alter, amend or replace any liability of either Seller or Buyer has pursuant to the System Agreement.

ARTICLE XI
LAWS, REGULATIONS AND FORCE MAJEURE

11.1 This Contract shall be subject to all valid and applicable laws, orders, rules and regulations of any duly constituted governmental authority.

11.2 In the event Buyer or Seller is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Contract, it is agreed that upon notice and reasonably full particulars of such force majeure given by one party to the other in writing within a reasonable time after the occurrence of the cause relied upon, then the obligations hereunder of the party giving such notice, so far as affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period, provided that such cause shall, so far as possible, be remedied with all reasonable dispatch. The term "force majeure" as employed herein means acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, insurrections, riots, lightning, earthquakes, fires, storms, floods, restraints of government, federal or state, civil or military, and of people, civil disturbances, explosions, breakage or accident to machinery, equipment or line of pipe, the necessity or desirability for making repairs to or alterations of machinery, equipment or lines of pipe, failure of sources of supply of natural gas, and any other case or causes, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable, wholly or in part, to prevent or overcome; provided, however, the term "force majeure" does not mean or include any cause which by either exercise of reasonable diligence the party claiming suspension could overcome. Settlement of strikes, lockouts or other labor disputes shall be entirely within the discretion of the party having the difficulty and the above requirements that any force majeure must be remedied with all reasonable dispatch or that must be a cause which can be prevented by the exercise of reasonable diligence shall not require the settlement or prevention of strikes, lockouts or other labor disputes by acceding to the demand of opposing parties when such course is inadvisable in the sole discretion of the party having the difficulty.

11.3 The Seller represents to the Buyer that the force majeure provisions of Article 11.2 of this Agreement are essentially identical to those found in the Farmland Contract. Both the Seller and Buyer therefore agree that if an event of force majeure is found to exist under the Farmland Contract it shall likewise be found to exist under this Agreement. If an event of force majeure is found not to exist under the terms of the Farmland Contract based upon those terms identical to those found in Article 11.2 of this Agreement, then a force majeure shall not exist under this Agreement.

ARTICLE XII
TAXES

12.1 Buyer shall pay or cause to be paid all taxes and assessments (including payment to Seller for all sales taxes) with respect to CO_2 delivered to Buyer and/or paid for by Buyer pursuant to the terms of this Agreement.

ARTICLE XIII
SUCCESSORS AND ASSIGNS

13.1 This Agreement shall bind and benefit the parties hereto and their successors and assigns, provided that no conveyance or transfer of any interest of either party shall be binding upon the other party until such other party has been furnished with written notice and true copy of such conveyance or transfer.

ARTICLE XIV
LIMITATION OF LIABILITY

14.1 Seller makes no warranty of any kind, express, or implied, and buyer assumes all risk and liability resulting from use by Buyer of the Carbon Dioxide(CO_2) gas covered by this Agreement, whether used singly or in combination with other products.

ARTICLE XV
NOTICES

15.1 All notices, statements, and other communication required or permitted to be given hereunder shall be in writing and shall be deemed to have been effectively given when deposited in the United States mail postage prepaid and registered or by an overnight mail, as the case may be, and addressed as follows:

BUYER: Henry Petroleum Corporation
3525 Andrews Highway - Suite 200
Midland, Texas 79703

SELLER: OXY USA Inc.
P.O. Box 300
Tulsa, Oklahoma 74102-0300
Attn: Oklahoma Asset Team

or to such other address as either party shall respectively hereafter designate in writing.

ARTICLE XVI
MISCELLANEOUS

16.1 No waiver by either party hereto of any one or more defaults by the other under this Agreement shall operate or be construed as a waiver of any future default or defaults whether of a like or different character.

16.2 The topical headings emphasis, where added, and table of contents used herein are inserted for convenience only and shall not be construed as having any substantive significance or meaning whatsoever or as indicating that all of the provisions of the Agreement relating to any particular topic are to be found in any particular article.

16.3 This Contract is subject to the terms and conditions of that certain Confidentiality Agreement dated March 19, 1996, and as amended July 22, 1996 which is incorporated herein by reference.

IN WITNESS WHEREOF, the parties hereto have caused this Contract to be executed in duplicate originals, as of the day and year first above written.

SELLER
OXY USA INC.

By: _____
Conrad Joseph
Vice President
Mid-Continent Region

Date Aug. 22, 1996

BUYER
HENRY PETROLEUM CORP.

By: _____
Dennis R. Johnson
Executive Vice-President

Date: August 23, 1996

EXHIBIT #2 TO BALLOT LETTER #P0896A

AMENDED AND RESTATED ARTICLES OF AGREEMENT ENID TO VELMA/PURDY CO_2 DELIVERY SYSTEM