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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 8-K/A**

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**CURRENT REPORT**  
**Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): March 6, 2020**

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**WPX Energy, Inc.**  
(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation)

**1-35322**  
(Commission  
File Number)

**45-1836028**  
(IRS Employer  
Identification No.)

**3500 One Williams Center, Tulsa, Oklahoma**  
(Address of principal executive offices)

**74172-0172**  
(Zip Code)

**Registrant's Telephone Number, Including Area Code: (855) 979-2012**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, \$0.01 par value</b>	<b>WPX</b>	<b>New York Stock Exchange</b>

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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On March 6, 2020, WPX Energy, Inc. (the “Company”) filed its Form 8-K (“the Original Form 8-K”) to report the completion of its acquisition of Felix Energy Holdings II, LLC (“Felix”) (the “Acquisition”). The Original Form 8-K did not include the pro forma unaudited financial statements of the combined entity. This Amendment No. 1 to the Original Form 8-K is filed to include the financial statement information required under Item 9.01 of Form 8-K in connection with the acquisition of Felix.

Except to the extent expressly set forth herein, this amended Form 8-K speaks as of the filing date of the Original Form 8-K and has not been updated to reflect events occurring subsequent to the original filing date. Accordingly, this amended Form 8-K should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the Original Form 8-K.

Included in this filing as Exhibit 99.1 are the audited consolidated financial statements of Felix for the periods described in Item 9.01(a) below, the notes related thereto and the Report of Independent Certified Public Accountants.

Included in this filing as Exhibit 99.2 is the unaudited pro forma condensed combined financial information described in Item 9.01(b) below.

Also included in this filing as Exhibit 99.3 is the report of Netherland, Sewell & Associates, Inc., an independent petroleum engineering firm.

#### **Item 9.01 Financial Statement and Exhibits.**

##### **(a) Financial Statements**

- Audited consolidated financial statements of Felix and its subsidiaries comprised of the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, member’s equity and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes to the consolidated financial statements, attached as Exhibit 99.1 hereto.

##### **(b) Pro Forma Financial Information**

The following unaudited pro forma condensed combined financial information of the Company, giving effect to the Acquisition, Felix’s dispositions of certain assets and certain related liabilities and the related financing transaction and the application of the proceeds from the offering, is included in Exhibit 99.2 hereto:

- Unaudited Pro Forma Condensed Combined Balance Sheet as of December 31, 2019.
- Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2019.
- Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

(d) Exhibits

<b>Exhibit No.</b>	
<a href="#"><u>23.1</u></a>	<a href="#"><u>Consent of Moss Adams LLP</u></a>
<a href="#"><u>23.2</u></a>	<a href="#"><u>Consent of Netherland, Sewell &amp; Associates, Inc.</u></a>
<a href="#"><u>99.1</u></a>	<a href="#"><u>Historical audited consolidated financial statements of Felix Energy Holdings II, LLC</u></a>
<a href="#"><u>99.2</u></a>	<a href="#"><u>Unaudited Pro Forma Condensed Combined Financial Information</u></a>
<a href="#"><u>99.3</u></a>	<a href="#"><u>Reserve report of Felix Energy Holdings II, LLC issued by Netherland, Sewell &amp; Associates, Inc., an independent petroleum engineering firm, dated March 3, 2020</u></a>
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This communication includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included herein that address activities, events or developments that the company expects, believes or anticipates will or may occur in the future are forward-looking statements. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of the company, including but not limited to: the ability of the parties to consummate the Acquisition in a timely manner or at all; satisfaction of the conditions precedent to consummation of the Acquisition, including the ability to secure required consents and regulatory approvals in a timely manner or at all, and approval by the Company’s stockholders; the possibility of litigation (including related to the Acquisition themselves); and other risks described in the Company’s SEC filings. The Company does not undertake and expressly disclaims any obligation to update the forward-looking statements as a result of new information, future events or otherwise. All forward-looking statements are based on management’s estimates, projections and assumptions as of the date hereof.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

WPX ENERGY, INC.

By: /s/ Stephen E. Brilz  
Stephen E. Brilz  
Vice President and Secretary

DATED: March 12, 2020

## EXHIBIT INDEX

Exhibit No.	Description
<a href="#">23.1</a>	<a href="#">Consent of Moss Adams LLP</a>
<a href="#">23.2</a>	<a href="#">Consent of Netherland, Sewell &amp; Associates, Inc.</a>
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104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

## **Consent of Independent Auditor**

We consent to the incorporation by reference in the Registration Statements (Form S-3, No. 333-221301 and Form S-8, Nos. 333-188767, 333-178388, and Post-Effective Amendment No. 1 thereto, Nos. 333-204355, 333-225141, and 333-225134) of WPX Energy, Inc., of our report dated February 6, 2020, with respect to the consolidated financial statements of Felix Energy Holdings II, LLC, and its subsidiaries as of December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, appearing in this Current Report on Form 8-K/A dated March 12, 2020.

/s/ Moss Adams LLP  
Denver, Colorado  
March 12, 2020

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CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

We hereby consent to the incorporation by reference in the Registration Statements (File Nos. 333-221301) on Form S-3, and the Registration Statements (Nos. 333-188767, 333-178388 and post-effective amendment No. 1 thereto, 333-204355, 333-225141 and 333-225134) on Form S-8 of WPX Energy, Inc. of our reserve report dated March 3, 2020, with respect to estimates of reserves and future net revenue of Felix Energy Holdings II, LLC, as of December 31, 2019 included in or made a part of this Current Report on Form 8-K/A. We also consent to the reference to our firm contained in the Registration Statements, including under the heading "Experts."

**NETHERLAND, SEWELL & ASSOCIATES, INC.**

By: /s/ Danny D. Simmons, P.E.

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Danny D. Simmons, P.E.

President and Chief Operating Officer

Houston, Texas  
March 12, 2020

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## Report of Independent Auditors

To the Board of Managers and Member  
Felix Energy Holdings II, LLC

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Felix Energy Holdings II, LLC and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, member's equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Felix Energy Holdings II, LLC and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

/s/ MOSS Adams LLP  
Denver, Colorado  
February 6, 2020

**Felix Energy Holdings II, LLC**  
**Consolidated Balance Sheets**

	December 31,	
	2019	2018
	(in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,537	\$ 6,677
Accounts receivable		
Trade	73,646	36,829
Joint interest	9,612	251
Derivative settlements	-	4,747
Prepaid and other current assets	1,022	1,073
Inventory	2,970	1,174
Total current assets	97,787	50,751
PROPERTY AND EQUIPMENT, at cost		
Oil and gas properties (successful efforts method):		
Proved properties	2,009,596	1,273,672
Unproved properties	15,167	29,633
Wells in progress	120,116	163,260
Water facilities and disposal systems	147,217	108,369
Midstream facilities	78,119	40,832
Other property and equipment	2,763	2,047
Accumulated depreciation, depletion, and amortization	(343,108)	(128,622)
Total property and equipment, net	2,029,870	1,489,191
OTHER ASSETS		
	2,279	881
TOTAL ASSETS		
	\$ 2,129,936	\$ 1,540,823
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 42,007	\$ 68,080
Accrued liabilities	106,869	104,458
Revenues payable	25,876	9,914
Derivative settlements	1,573	-
Derivative liability	13,053	3,925
Total current liabilities	189,378	186,377
LONG-TERM DEBT, net		
	948,626	641,647
ASSET RETIREMENT OBLIGATIONS		
	5,337	3,298
TOTAL LIABILITIES		
	1,143,341	831,322
MEMBER'S EQUITY		
	986,595	709,501
TOTAL LIABILITIES AND MEMBER'S EQUITY		
	\$ 2,129,936	\$ 1,540,823

See accompanying notes to these consolidated financial statements.

**Felix Energy Holdings II, LLC**  
**Consolidated Statements of Income**

	Years Ended December 31,		
	2019	2018	2017
	(in thousands)		
REVENUES			
Oil revenue	\$ 659,264	\$ 315,395	\$ 108,675
Gas revenue	11,233	9,167	5,092
NGL revenue	38,011	27,083	7,815
Water revenue	12,780	10,016	3,169
Total revenues	721,288	361,661	124,751
OPERATING EXPENSES			
Lease operating	112,126	49,883	20,159
Gathering, processing, and transportation	52,686	21,576	5,650
Production taxes	44,729	18,600	6,258
Geological and geophysical	6,564	6,767	276
Exploration	12,412	910	109
Depreciation, depletion, and amortization	214,722	82,920	40,943
General and administrative	24,492	16,600	11,064
Total operating expenses	467,731	197,256	84,459
INCOME FROM OPERATIONS			
	253,557	164,405	40,292
OTHER INCOME (EXPENSE)			
Gain on sale of oil and gas properties	-	2,626	19,626
Loss on derivative instruments	(16,517)	(1,562)	(17,367)
Interest expense, net	(34,005)	(11,929)	(4,283)
Interest income	221	83	28
Other income, net	415	-	-
Total other income (expense), net	(49,886)	(10,782)	(1,996)
NET INCOME			
	\$ 203,671	\$ 153,623	\$ 38,296

See accompanying notes to these consolidated financial statements.

**Felix Energy Holdings II, LLC**  
**Consolidated Statements of Member's Equity**

	Member's Equity <u>(in thousands)</u>
BALANCE, December 31, 2016	\$ 348,333
Capital contributions	193,712
Capital distributions	(7,080)
Net income	<u>38,296</u>
BALANCE, December 31, 2017	573,261
Capital distributions	(17,383)
Net income	<u>153,623</u>
BALANCE, December 31, 2018	709,501
Capital contributions	100,000
Capital distributions	(26,577)
Net income	<u>203,671</u>
BALANCE, December 31, 2019	<u>\$ 986,595</u>

See accompanying notes to these consolidated financial statements.

# Felix Energy Holdings II, LLC

## Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2019	2018	2017
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 203,671	\$ 153,623	\$ 38,296
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, depletion, and amortization	214,486	82,786	40,844
Amortization of deferred financing costs included in interest	3,145	1,367	429
Accretion of discount on asset retirement obligation	236	134	98
Surrendered and expired acreage	12,401	910	-
Change in fair value of derivatives	9,128	(13,442)	17,367
Gain on sale of oil and gas properties	-	(2,626)	(19,626)
Change in operating assets and liabilities:			
Accounts receivable	(41,431)	(17,408)	(21,710)
Prepaid expenses and other assets	(1,347)	(649)	56
Inventory	(1,796)	(22)	(1,152)
Accounts payable	(26,073)	(11,849)	13,973
Accrued expenses and other liabilities	3,984	16,401	(1,756)
Revenues payable	15,962	2,971	6,551
Net cash provided by operating activities	392,366	212,196	73,370
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to oil and gas properties	(765,048)	(658,123)	(343,842)
Additions to other property and equipment	(716)	(73,472)	(22,702)
Change in prepaid drilling costs	-	(123)	846
Proceeds from sale of oil and gas properties	-	3,228	42,029
Net cash used in investing activities	(765,764)	(728,490)	(323,669)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from credit facilities	306,545	535,086	244,669
Repayments on credit facilities	-	-	(172,500)
Proceeds from short-term borrowings - related party	-	-	45,000
Repayments of short-term borrowings - related party	-	-	(45,000)
Deferred financing costs	(2,710)	(3,751)	(2,453)
Capital contributions	100,000	-	193,712
Capital distributions	(26,577)	(17,383)	(7,080)
Net cash provided by financing activities	377,258	513,952	256,348
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,860	(2,342)	6,049
CASH AND CASH EQUIVALENTS, beginning of year	6,677	9,019	2,970
CASH AND CASH EQUIVALENTS, end of year	\$ 10,537	\$ 6,677	\$ 9,019
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest	\$ 47,334	\$ 10,163	\$ 3,163
Property additions associated with changes in current liabilities	\$ 104,410	\$ 89,594	\$ 47,833

See accompanying notes to these consolidated financial statements.

**Note 1 – Organization and Summary of Significant Accounting Policies**

**Nature of Business** – Felix Energy Holdings II, LLC (the Company), a Delaware limited liability company (LLC), was formed on August 28, 2015, for the purpose of acquiring, developing, and operating oil and gas properties in the Permian Basin. As an LLC, the amount at risk for each individual member is limited to the amount of capital contributed to the LLC, and unless otherwise noted, the individual member's liability for indebtedness of an LLC is limited to the member's actual capital contribution.

In June 2017, the Company was conveyed to Felix Investments Holdings II, LLC (HoldCo). HoldCo is directly and indirectly owned 100% by Felix Energy Investments II, LLC (Investments). Prior to this conveyance, the Company was owned by Investments (99.9%) and Felix Energy II, Inc. (0.01%), a C Corporation, which was wholly owned by Investments.

The Company has the following wholly owned subsidiaries:

- Felix Water, LLC (Water), a Delaware LLC, was formed on April 5, 2016, for the purpose of acquiring, developing, and operating produced water disposal wells and providing source water to both the Company and third parties.
- Felix Midstream, LLC (Midstream), a Delaware LLC, was formed on October 19, 2016, for the purpose of operating gathering assets to service both the Company and third parties.
- Felix Administrative Services, LLC, a Delaware LLC, was formed on December 10, 2015, to provide management services to entities within the Felix structure.

**Basis of Presentation** – The Company follows accounting standards established by the Financial Accounting Standards Board (FASB). The FASB sets accounting principles generally accepted in the United States of America (GAAP) to ensure consistent reporting of the Company's financial condition, results of operations and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (ASC or Codification).

**Principles of Consolidation** – The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. In preparing the consolidated financial statements, all inter-company accounts and transactions have been eliminated.

**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Use of Estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Actual results could differ from those estimates. Significant judgments and estimates include: estimates related to the oil and gas reserves held by the Company which directly impact the depletion calculation and fair value of the oil and gas properties, assignment of fair value and allocation of purchase price in connection with business combinations, valuation of derivative instruments, accrued revenue and related receivables, and accrued liabilities.

**Cash and Restricted Cash** – Cash and cash equivalents include cash on hand, amounts held in banks and highly liquid investments purchased with an original maturity of three months or less.

**Accounts Receivable** – The Company's accounts receivable are generated from oil and gas sales and from joint interest owners on properties that the Company operates. The Company's oil and gas receivables are typically collected within 1 to 2 months, and receivables from joint interest owners are due within 30 days of the billing date

The Company accrues an allowance on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any allowance may be reasonably estimated. For receivables from joint-interest owners, the Company usually has the ability to withhold future revenue disbursements to satisfy the outstanding balance. No allowance for bad debts has been recorded at December 31, 2019 or 2018.

**Inventory** – Inventory consists of pipe and supplies maintained to support the Company's water and midstream infrastructure and is stated at the lower of cost (determined on a specific identification basis) or market. Management reviews inventory for items which are slow moving, damaged, or obsolete to provide for a valuation reserve. No reserve has been deemed necessary as of December 31, 2019 and 2018.

**Oil and Gas Properties** – The Company accounts for its oil and gas operations using the successful efforts method of accounting. Under this method, all costs associated with property acquisitions, successful exploratory wells and all development wells are capitalized, including interest on capital costs associated with the development of oil and gas properties during drilling and completion. Items charged to expense generally include geological and geophysical costs, costs of unsuccessful exploratory wells, delay rentals, and oil and gas production costs. Capitalized costs of proved leasehold costs are depleted on a field-by-field basis using the units-of-production method based upon total proved oil and gas reserves. Other capitalized costs of producing properties are depleted based on proved developed reserves. All wells in process as of December 31, 2019 and 2018 are expected to be completed within the next 12 months. Depletion expense for the years ended December 31, 2019, 2018, and 2017 was \$206.7 million, \$78.5 million, and \$39.6 million, respectively.

**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

The Company assesses its proved oil and gas properties for impairment whenever events or circumstances indicate that the carrying value of the assets may not be recoverable. The impairment test compares undiscounted future net cash flows to the assets' net book value. If the net capitalized costs exceed future net cash flows, then the cost of the property is written down to the estimated fair value. Fair value for oil and natural gas properties is generally determined based on an analysis of discounted future net cash flows adjusted for certain risk factors. There were no impairments of proved oil and gas properties during the years ended December 31, 2019, 2018, or 2017.

Unproved properties are assessed periodically on a project-by-project basis to determine whether an impairment has occurred. Management's assessment includes consideration of the results of exploration activities, commodity price outlooks, planned future sales, or expiration of all or a portion of such projects which impact the amount and timing of impairment provisions. Sales proceeds from unproved oil and gas properties are credited to related costs of the prospect sold until all such costs are recovered and then to net gain or loss on sales of unproved oil and gas properties. Management determined there were no impairments of unproved oil and gas properties during the years ended December 31, 2019, 2018, or 2017.

Gains and losses arising from sales of oil and gas properties are included in income. However, a partial sale of proved properties within an existing field that does not significantly affect the unit-of-production depletion rate will be accounted for as a normal retirement with no gain or loss recognized. The sale of a partial interest within a proved property is accounted for as a recovery of cost. The partial sale of unproved property is accounted for as a recovery of cost when there is uncertainty of the ultimate recovery of the cost applicable to the interest retained.

**Water Facilities and Disposal Systems** – Water facilities and disposal systems consist of disposal wells and facilities and source water ponds and pits. Amounts are recorded at cost and depreciated using the straight-line method. The estimated useful lives are as follows:

Disposal wells	20 years
Source water ponds and pits	10 years

Water facilities and disposal systems comprise the following:

	December 31,	
	2019	2018
	(in thousands)	
Land and improvements	\$ 2,019	\$ 1,947
Facilities, wells, and equipment	137,180	101,510
Construction in progress	8,018	4,912
Total	147,217	108,369
Accumulated depreciation	(12,549)	(5,174)
Total water facilities and disposal systems	<u>\$ 134,668</u>	<u>\$ 103,195</u>



**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

The Company recorded depreciation expense on the water facilities and disposal systems of \$7.4 million and \$4 million for the years ended December 31, 2019 and 2018, respectively.

All costs necessary to place an asset into operation are capitalized. Maintenance and repairs are expensed when incurred. The Company also capitalizes interest on capital costs during the construction phase of disposal wells, facilities, source water ponds, and pits. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts, and any gain or loss is included in earnings.

Costs incurred for construction of produced water disposal assets in progress and not operational are initially included in construction in progress. No depreciation is recorded for these assets as they have not been placed in operations.

The Company evaluates impairment of its property and equipment in accordance with ASC 360-10-35, *Impairment or Disposal of Long-Lived Assets*, which requires that an impairment analysis is performed whenever events or circumstances indicate that the carrying value of an asset is less than its fair value. Based upon this evaluation, no impairment was indicated at December 31, 2019 and 2018.

**Midstream Facilities** – Midstream facilities include gathering system assets, primarily pipelines and well connections, which service the Company's wells. Amounts are recorded at cost and depreciated using the units-of-production method consistent with the Company's producing oil and gas properties.

Midstream facilities comprise the following:

	December 31,	
	2019	2018
	(in thousands)	
Gathering systems, terminals, and equipment	\$ 75,286	\$ 40,332
Construction in progress	2,833	500
Total	78,119	40,832
Accumulated depreciation	(11,491)	(2,972)
Total midstream facilities	<u>\$ 66,628</u>	<u>\$ 37,860</u>

The Company recorded depreciation expense of \$8.5 million and \$3 million for the years ended December 31, 2019 and 2018, respectively on these assets.

Costs incurred for construction of midstream facilities in progress and not operational are initially included in construction in progress. No depreciation is recorded for these assets until they have been placed in operations.

**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Other Property and Equipment** – Other property and equipment consists of office furniture and fixtures, leasehold improvements, and computer hardware and software. Other property and equipment is recorded at cost and depreciated using the straight-line method over 3 to 5 years.

**Prepaid Drilling Costs** – Cash payments are made to operators in advance of drilling and completion work on oil and gas properties that the Company has a working interest in but does not operate. As work occurs on these properties, the balance is reduced and moved to oil and gas properties.

**Accounts Payable and Accrued Liabilities** – Costs to drill, complete, and operate oil and gas properties are included in accounts payable when invoiced. Costs incurred for which an invoice has not yet been received are included in accrued liabilities and are based on management’s estimate of amounts expected to be paid.

Accrued liabilities comprise the following:

	December 31,	
	2019	2018
	(in thousands)	
Accrual for capital expenditures	\$ 69,471	\$ 85,990
Other	37,398	18,468
Total	<u>\$ 106,869</u>	<u>\$ 104,458</u>

**Revenues Payable** – Revenues payable represents amounts collected from purchasers for oil and gas sales which are due to other revenue interest owners. Generally, the Company is required to remit amounts due under these liabilities within 60 days of the end of the month in which the related production occurs. Revenues in suspense are also included in revenue payable.

**Derivative Instruments** – The Company uses derivative contracts to reduce the risk associated with commodity price changes associated with its future oil and natural gas production, typically fixed-price swaps and floating basis swaps. The Company’s derivative instruments are measured at fair value and recorded on the consolidated balance sheets as an asset or a liability. Changes in the fair value and realized gains and losses are recorded in *Loss on derivative instruments* in the consolidated statements of income.

**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Revenue Recognition** – Effective January 1, 2019, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*. Revenue from the sale of oil, NGLs, and gas are recognized, as the product is delivered to the customers' custody transfer points and collectability is reasonably assured. The Company fulfills the performance obligations under the customer contracts through daily delivery of oil, NGLs, and gas to the customers' custody transfer points, and revenues are recorded on a monthly basis. The prices received for oil, NGLs, and natural gas sales under the Company's contracts are generally derived from stated market prices which are then adjusted to reflect deductions, including transportation, fractionation and processing. As a result, the revenues from the sale of oil, natural gas, and NGLs will decrease if market prices decline. The sales of oil, NGLs, and gas, as presented on the condensed consolidated statements of income, represent the Company's share of revenues, net of royalties and excluding revenue interests owned by others. When selling oil, NGLs, and gas on behalf of royalty owners or working interest owners, the Company is acting as an agent and thus reports the revenue on a net basis. To the extent actual volumes and prices of oil and natural gas sales are unavailable for a given reporting period because of timing or information not received from third parties, the expected sales volumes and prices for those properties are estimated and recorded.

**Acquisitions** – In accordance with ASC Topic 805, *Business Combinations*, the Company determines whether an acquisition is a business combination, which requires that the assets acquired and liabilities assumed constitute a business. Each business combination is then accounted for by applying the acquisition method of accounting. If the assets acquired are not a business, the Company accounts for the transaction as an asset acquisition. Under both methods, purchase prices are allocated to acquired assets and assumed liabilities based on their estimated fair value at the time of the acquisition (adjusted for purchase price adjustments in business combinations). For transactions that are business combinations, the Company evaluates the existence of goodwill or intangibles. The excess, if any, of the purchase price over the net fair value amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. The Company capitalizes acquisition-related costs and fees associated with asset acquisitions and immediately expenses acquisition-related costs and fees associated with business combinations.

The Company estimates the fair values of assets acquired and liabilities assumed in acquisitions using various assumptions (all of which are Level 3 inputs within the fair value hierarchy). The most significant assumptions typically relate to the estimated fair values assigned to proved and unproved oil and natural gas properties. To estimate the fair values of the proved and unproved oil and natural gas properties, the Company develops estimates of oil, natural gas, and NGL reserves. Estimates of reserves are based on the quantities of oil, natural gas, and NGLs that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions. Additionally, a risk factor is applied to reserves by reserve type based on industry standards. The Company estimates future prices to apply to the estimated net quantities of reserves based on the applicable ownership percentage acquired and estimates future operating and development costs to arrive at estimates of future net cash flows. The future net cash flows are discounted using a market-based weighted-average cost of capital rate determined appropriate at the time of the acquisition.

**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Income Taxes** – The Company is an LLC. Accordingly, no provision for U.S. federal or state income taxes has been recorded as the income, deductions, expenses, and credits of the Company are reported on the individual income tax returns of the Company’s member. The Company is, however, subject to the Texas margin tax due to its operation within the state of Texas. Amounts incurred under the Texas margin tax during the years ended December 31, 2019, 2018, and 2017 were immaterial, and no amounts were due as of December 31, 2019 and 2018.

The Company has not recorded any liabilities as of December 31, 2019 related to uncertain tax provisions. As of December 31, 2019, the Company made no provision for interest or penalties related to uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various states. There are currently no federal or state income tax examinations underway for these jurisdictions.

**Asset Retirement Obligations** – The Company accounts for asset retirement obligations by recognizing the fair value of a liability for an asset retirement obligation in the period in which it is incurred, if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the life of the asset. The liability increases due to the passage of time based on the time value of money until the obligation is settled.

The Company’s asset retirement obligations relate primarily to the retirement of oil and gas properties and related equipment used at the wellsite. The following table summarizes the changes in the Company’s asset retirement obligations for the years ended December 31, 2019 and 2018:

	December 31,	
	2019	2018
	(in thousands)	
Asset retirement obligations, beginning of year	\$ 3,298	\$ 2,738
Liabilities incurred during the year	1,858	621
Liabilities settled during the year	(54)	(195)
Accretion of discount	235	134
Asset retirement obligations, end of year	<u>\$ 5,337</u>	<u>\$ 3,298</u>

**Fair Value of Financial Instruments** – The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, revenues payable, derivative instruments, and long-term debt. The carrying value of the Company’s financial instruments approximate fair value due to their short maturities, interest rates that approximate market rates, or recurring fair value measurements (Note 5).

**Concentrations of Credit Risk** – The Company maintains cash balances at a financial institution that is insured by the Federal Deposit Insurance Corporation (FDIC) for amounts up to \$250,000. At any point in time, the Company may have amounts on deposit that are in excess of federally insured limits.

**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Recently Issued Accounting Pronouncements** – In February 2016, the FASB issued ASU 2016-02, *Leases*. The FASB issued the guidance to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This will be required for all leases that have a term longer than one year. For nonpublic entities, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. Early application of the standard is permitted upon issuance. The Company is in the process of evaluating the impact this standard will have on its financial statements.

**Note 2 – Sale of Subsidiaries**

In December 2019, WPX Energy, Inc. and HoldCo entered into a Securities Purchase Agreement pursuant to which HoldCo will sell, and WPX Energy, Inc. will purchase, one hundred percent of the issued and outstanding membership interests of the Company for a purchase price of \$2.5 billion consisting of \$900 million in cash and \$1.6 billion in shares of stock in WPX Energy, Inc. Under the terms of this purchase agreement, the Company's wholly owned subsidiaries, Felix Water, LLC, Felix Midstream, LLC, and Felix Administrative Services, LLC are excluded from the transaction and will either be (i) distributed to HoldCo or (ii) disposed of in a third-party sale prior to the closing of this purchase agreement. The closing date of this sale is pending as of February 6, 2020.

Additionally, the Company entered into an agreement on December 13, 2019, to sell its oil gathering business, Felix Midstream, LLC, to a third party effective January 31, 2020. The Company is also actively marketing Water to third parties, and transferred the ownership rights of Water to HoldCo effective February 3, 2020. The Company analyzed these transactions under ASC 205-20, *Discontinued Operations*, and determined for Midstream it did not meet the qualifications as a strategic shift resulting in a major change in its operations. In addition, the sale of Midstream would not have a significant effect on its financial results. For Water, the ownership transfer to HoldCo does not result in a change in presentation within the consolidated financial statements.

**Note 3 – Property Dispositions**

There were no significant property dispositions during the years ended December 31, 2019 and 2018. In January 2017, the Company sold its entire interest in certain oil and gas properties located in Oklahoma to a related party for \$42.0 million (net of transaction costs of \$0.4 million). The properties had a carrying value of \$22.2 million, resulting in a gain of \$19.8 million included in the Company's consolidated statement of income for the year ended December 31, 2017.

**Note 4 – Related Party Transactions**

**Short-Term Borrowing** – The Unit Purchase Agreement between Investments and members of Investments allowed for additional funding up to \$100 million. In March and May 2017, the Company received \$20 million and \$25 million, respectively, under this additional funding stipulation. Such amounts may be repaid under the terms of Investment's LLC Agreement at 11% interest per annum. The outstanding amount of \$45 million was repaid in August 2017, plus accrued interest of \$1.3 million. The agreement was terminated when repaid.

**HoldCo Note** – In August 2017, HoldCo closed on \$300 million of senior secured first lien notes due 2022 (the HoldCo Note). The \$300 million facility includes a \$100 million delay draw. The HoldCo Note is collateralized by substantially all of HoldCo's assets and equity interests, which includes the equity of the Company. As of December 31, 2019, the Company has received \$300 million sourced from the HoldCo Note and has classified the amounts as capital contributions.

The HoldCo Note accrues interest at LIBOR (London Interbank Offered Rate) plus 6.50%. Interest payments are made by the Company to HoldCo in the form of distributions. During the years ended December 31, 2019 and 2018, the Company made distributions of \$26.6 and \$17.4 million, respectively, in connection with the interest.

Refer to Note 3 regarding the Company's sale of oil and gas properties to a related party.

**Note 5 – Long-Term Debt**

The carrying amounts of the Company's long-term debt are as follows:

	December 31,	
	2019	2018
	(in thousands)	
<b>Holdings Facility</b>		
Amount outstanding	\$ 859,000	\$ 567,000
Unamortized deferred financing charges	(3,734)	(4,481)
	<u>855,266</u>	<u>562,519</u>
<b>Water Facility</b>		
Amount outstanding	94,300	79,755
Unamortized deferred financing charges	(940)	(627)
	<u>93,360</u>	<u>79,128</u>
<b>Total long-term debt</b>	<u><u>\$ 948,626</u></u>	<u><u>\$ 641,647</u></u>

**Holdings Facility** – In July 2016, the Company entered into a five-year, \$500 million credit facility with a third-party financial institution (the Holdings Facility). The borrowing base is redetermined periodically based on the Company's proved reserves. As of December 31, 2019, the borrowing base had been increased to \$1.125 billion. Except in the case of a continuing event of default, amounts borrowed under the Holdings Facility are due on the maturity date of July 1, 2021.

Borrowings under the Holdings Facility bear interest at a variable interest rate based on the higher of (a) the prime rate set by the Holdings Facility's administrative agent, (b) the Federal Funds Rate plus 0.50%, or (c) the rate for LIBOR loans for a one-month interest period plus 1% (Alternate Base Rate Loans). Interest is payable quarterly.

As of December 31, 2019, the Company had \$859 million outstanding under the Holdings Facility, and the applicable interest rate was 4.25%.

Under the provisions of the Holdings Facility, the Company is subject to a number of restrictions and covenants, including maintaining a consolidated current ratio greater than 1.0 to 1.0 and a consolidated leverage ratio less than 4.0 to 1.0. The Company believes it was in compliance with all of the covenants under the Holdings Facility as of December 31, 2019.

**Water Facility** – In April 2019, Felix Water, LLC, a wholly owned subsidiary of the Company, entered into a three-year, \$150 million credit facility with a third-party financial institution (the Water Facility). The borrowing base is redetermined periodically based on the Water's produced water disposal properties. As of December 31, 2019, the borrowing base was \$150 million. Except in the case of a continuing event of default, amounts borrowed under the Water Facility are due on the maturity date of April 23, 2022.

**Note 5 – Long-Term Debt (continued)**

Borrowings under the Water Facility bear interest at a variable rate. As of December 31, 2019, the Company has \$94.3 million outstanding under the Water Facility, and the applicable interest rate was 4.5%.

Under the provisions of the Water Facility, the Company is subject to a number of restrictions and covenants, including maintaining an interest coverage ratio greater than 2.75 to 1.0 and a leverage ratio less than 3.5 to 1.0 for Felix Water, LLC. The Company believes it was in compliance with all of the covenants under the Water Facility as of December 31, 2019.

**Interest Expense** – Interest expense consists of the following components:

	Years Ended December 31,		
	2019	2018	2017
	(in thousands)		
Interest on outstanding debt			
Holdings Facility	\$ 37,257	\$ 16,373	\$ 2,140
Water Facility	4,815	3,137	479
Short-term borrowing (Note 4)	-	-	1,343
Amortization of deferred financing costs	3,145	1,367	429
Commitment fees and other	-	-	2,343
Total interest incurred	45,217	20,877	6,734
Less capitalized interest	(11,212)	(8,948)	(2,451)
Interest expense, net	<u>\$ 34,005</u>	<u>\$ 11,929</u>	<u>\$ 4,283</u>

**Note 6 – Derivative Instruments**

The following table sets forth the Company's outstanding derivative contracts as of December 31, 2019:

Commodity	Period	Volume	Unit of Measure	Weighted-Average Contract Price
Oil price swaps	1/1/2020 - 3/31/2020	1,001,000	Barrels	\$ 55.77
Oil price swaps	1/1/2020 - 6/30/2020	2,730,000	Barrels	\$ 57.39
Oil price swaps	4/1/2020 - 12/31/2020	3,025,000	Barrels	\$ 57.87
Oil price swaps	1/1/2020 - 12/31/2020	1,464,000	Barrels	\$ 57.89
Oil basis swaps	1/1/2020 - 12/31/2020	6,222,000	Barrels	\$ 0.82



**Note 6 – Derivative Instruments (continued)**

The following table sets forth the Company's outstanding derivative contracts as of December 31, 2018:

Commodity	Period	Volume	Unit of Measure	Weighted-Average Contract Price
Oil basis swaps	1/1/2019 - 6/30/2019	2,261,000	Barrels	\$ (7.30)
Natural gas price swaps	1/1/2019 - 6/30/2019	1,739,750	MMBtu	\$ 3.71
Natural gas basis swaps	1/1/2019 - 6/30/2019	1,739,750	MMBtu	\$ (2.15)

The following table discloses the Company's derivative instruments as of December 31, 2019 and 2018:

Commodity	Balance Sheet Location	Estimated Fair Value December 31, 2019 (in thousands)
Oil price swaps	Derivate liability - current	\$ (12,191)
Oil basis swaps	Derivate liability - current	(862)
		<u>\$ (13,053)</u>

  

Commodity	Balance Sheet Location	Estimated Fair Value December 31, 2018 (in thousands)
Oil basis swaps	Derivate liability - current	\$ (3,982)
Natural gas price swaps	Derivate asset - current*	1,277
Natural gas basis swaps	Derivate liability - current	(1,220)
		<u>\$ (3,925)</u>

\* The natural gas price swaps are in an asset position and are subject to a master netting agreement. The Company has elected to net the asset against its liability position.

**Note 6 – Derivative Instruments (continued)**

The following table reconciles the Company's loss on its derivative instruments:

	Years Ending December 31,	
	2019	2018
	(in thousands)	
Realized loss on settlements	\$ (7,389)	\$ (15,004)
Mark-to-market gain (loss)	(9,128)	13,442
Loss on derivative instruments	<u>\$ (16,517)</u>	<u>\$ (1,562)</u>

**Note 7 – Fair Value Measurements**

The Company follows ASC 820, *Fair Value Measurements and Disclosures*, which establishes a hierarchy for the inputs utilized in measuring fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

**Level 1** – Quoted prices for identical assets or liabilities in active markets;

**Level 2** – Quoted prices for similar assets or liabilities in active markets;

**Level 3** – Unobservable inputs for the asset or liability such as discounted cash models.

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2019 and 2018:

	Level 1	Level 2	Level 3
		(in thousands)	
December 31, 2019			
Oil price swaps	\$ -	\$ (12,191)	\$ -
Oil basis swaps	-	(862)	-
Natural gas basis swaps	-	-	-
Total	<u>\$ -</u>	<u>\$ (13,053)</u>	<u>\$ -</u>
December 31, 2018			
Oil basis swaps	\$ -	\$ (3,982)	\$ -
Natural gas price swaps	-	1,277	-
Natural gas basis swaps	-	(1,220)	-
Total	<u>\$ -</u>	<u>\$ (3,925)</u>	<u>\$ -</u>

**Note 7 – Fair Value Measurements (continued)**

Assets acquired and liabilities assumed in business combinations are recorded at fair value at the acquisition date. The inputs used to determine such fair value are primarily based upon cash flow models and would be classified within Level 3. Additionally, we use fair value to determine the inception value of our asset retirement obligations. The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates from third parties, and would be classified within Level 3.

**Note 8 – Commitments and Contingencies**

**Office Lease** – The Company leases various office space in Denver, Colorado under non-cancellable operating leases through May 31, 2023. Future minimum payments under these leases are \$2.4 million as of December 31, 2019. The Company's rent expense for the years ended December 31, 2019, 2018, and 2017 totaled \$0.7 million, \$0.6 million, and \$0.4 million, respectively.

**Environmental Issues** – The Company is engaged in oil and gas exploration and production and may become subject to certain liabilities as they relate to environmental clean-up of well sites or other environmental restoration procedures as they relate to the drilling of oil and gas wells and the operation thereof. In the Company's acquisition of existing or previously drilled well bores, the Company may not be aware of what environmental safeguards were taken at the time such wells were drilled or during such time the wells were operated. Should it be determined that a liability exists with respect to any environmental clean-up or restoration, the liability to cure such a violation could fall upon the Company. Management believes its properties are operated in conformity with local, state, and federal regulations. No claim has been made, nor is the Company aware of any uninsured liability which the Company may have, as it relates to any environmental clean-up, restoration, or the violation of any rules or regulations relating thereto.

**Note 9 – Subsequent Events**

Effective February 3, 2020, the Company's full ownership of Felix Water, LLC was transferred to Felix Energy Investments II, LLC.

Additionally, the Company sold its oil gathering business, Felix Midstream, LLC, to a third party with an effective date of January 31, 2020.

The Company has evaluated subsequent events through February 6, 2020, the date the consolidated financial statements were available to be issued, and determined there were no items requiring additional disclosure.

**Note 10 – Supplemental Oil and Gas Disclosures (unaudited)**

**Net Capitalized Costs** – The following table reflects the capitalized costs of natural gas and oil properties and the related accumulated depreciation, depletion, and amortization as of December 31, 2019 and 2018:

	December 31,	
	2019	2018
	(in thousands)	
Proved properties, subject to depletion	\$ 2,009,596	\$ 1,273,672
Unproved properties, not subject to depletion	15,167	29,633
Total capitalized cost	2,024,763	1,303,305
Less accumulated depletion	(318,273)	(120,047)
Net capitalized cost	<u>\$ 1,706,490</u>	<u>\$ 1,183,258</u>

**Cost Incurred in Oil and Natural Gas Property Acquisition, Exploration, and Development** – The following table reflects costs incurred in oil, natural gas, and NGL property acquisition, development, and exploratory activities.

	December 31,		
	2019	2018	2017
	(in thousands)		
Acquisition of costs and properties			
Proved properties	\$ -	\$ -	\$ -
Unproved properties <sup>(1)</sup>	4,676	7,329	34,454
Development and exploratory cost	751,134	717,908	335,461
Total costs	<u>\$ 755,810</u>	<u>\$ 725,237</u>	<u>\$ 369,915</u>

<sup>(1)</sup> Activity above excludes transfers from unproved to proved properties during the year.

**Results of Operations for Oil, Natural Gas, and NGL Producing Activities** – The Company's results of operations for oil, natural gas, and NGL producing activities for the years ended December 31, 2019, 2018, and 2017 are appropriately reflected on the consolidated income statement.

**Oil, Natural Gas, and NGL Reserves** – Proved reserves were estimated in accordance with guidelines established by the SEC, which require that reserve estimates be prepared under existing economic and operating conditions based upon the 12-month unweighted average of the first day of the month prices. Proved reserves are estimated volumes of oil, natural gas, and NGLs that geological and engineering data demonstrate with reasonable certainty are recoverable in future years from known reservoirs under existing economic and operating conditions. There are numerous uncertainties inherent in estimating quantities of proved reserves and projecting future production rates and timing of future development costs.

**Note 10 – Supplemental Oil and Gas Disclosures (unaudited) (continued)**

The following table reflects changes in proved reserves during the periods indicated:

	Oil (MBbls)	Natural Gas (MMcf)	NGLs (MBbls)	Total (MBOE)
Proved reserves at December 31, 2016	28,049	22,897	3,683	35,548
Purchases of reserves	90	119	7	117
Divestiture of reserves	(439)	(2,059)	(387)	(1,169)
Sales of oil and gas produced	(2,170)	(1,865)	(314)	(2,795)
Revisions	10,543	16,264	3,422	16,676
Extensions and discoveries	42,879	40,328	7,482	57,082
Proved reserves at December 31, 2017	78,952	75,684	13,893	105,459
Purchases of reserves	-	-	-	-
Sales of oil and gas produced	(5,547)	(4,911)	(874)	(7,240)
Revisions	(1,511)	(6,576)	2,895	288
Extensions and discoveries	366,776	269,186	67,627	479,268
Proved reserves at December 31, 2018	438,670	333,383	83,541	577,775
Purchases of reserves	19	(93)	(9)	(6)
Sales of oil and gas produced	(11,879)	(13,021)	(2,483)	(16,532)
Revisions	(178,227)	(71,855)	(27,105)	(217,308)
Extensions and discoveries	93,864	86,976	18,883	127,243
Proved reserves at December 31, 2019	342,447	335,390	72,827	471,172

At December 31, 2019, the Company had approximately 471,172 MBOE of proved reserves. As a result of the Company's drilling program, there was an increase in extension and discoveries of proved reserves totaling 127,243 MBOE, offset by revisions of 217,308 MBOE due primarily to decreased drilling activity. Reserves as of December 31, 2018, were based on a seven development drilling rig plan in place at such time. The Company has since reduced its drilling rigs from seven to five and as a result, Felix's proved undeveloped locations as of December 31, 2019 are less. The Company's current development plan reflects allocation of capital with a focus on efficiencies, recoveries, and rates of return. The impact of pricing on revisions of previous estimates was minimal.

At December 31, 2018, the Company had approximately 577,775 MBOE of proved reserves. As a result of the Company's drilling program, there was an increase in extension and discoveries of proved reserves totaling 479,268 MBOE. The Company's current development plan reflects allocation of capital with a focus on efficiencies, recoveries, and rates of return. The impact of pricing on revisions of previous estimates was minimal.

**Note 10 – Supplemental Oil and Gas Disclosures (unaudited) (continued)**

At December 31, 2017, the Company had approximately 105,459 MBOE of proved reserves. During 2017, due to the Company's drilling program there was an increase in extension and discoveries of proved reserves by 57,082 MBOE. The impact of pricing on revisions of previous estimates was minimal.

The following table sets forth the estimated quantities of proved developed and proved undeveloped (PUD) oil, natural gas, and NGL reserves of the Company as of December 31, 2019, 2018, and 2017.

	2019	2018	2017
<b>Proved Developed Reserves <sup>(1)</sup></b>			
Oil (MBbls)	94,237	65,992	24,077
Natural Gas (MMcf)	106,844	51,917	24,270
NGLs (MBbls)	23,139	12,743	4,356
<b>Total (MBoe)</b>	<b>135,183</b>	<b>87,388</b>	<b>32,478</b>
<b>Proved Undeveloped Reserves</b>			
Oil (MBbls)	248,210	372,678	54,876
Natural Gas (MMcf)	228,547	281,467	51,414
NGLs (MBbls)	49,688	70,798	9,535
<b>Total (MBoe)</b>	<b>335,989</b>	<b>490,387</b>	<b>72,980</b>
<b>Total Proved Reserves</b>			
Oil (MBbls)	342,447	438,670	78,952
Natural Gas (MMcf)	335,390	333,383	75,684
NGLs (MBbls)	72,827	83,541	13,893
<b>Total (MBoe)</b>	<b>471,172</b>	<b>577,775</b>	<b>105,459</b>

<sup>(1)</sup> As of December 31, 2019, 2018, and 2017, proved developed reserves includes proved developed non-producing reserves of 9,675.9 MBbls, 231.7 MBbls, and 4,154.7 MBbls of oil; 1,917.7 MBbls, 26.4 MBbls, and 791.8 MBbls of NGL; and 8,815.2 MMcf, 208.6 MMcf, and 4,267.5 MMcf of natural gas, respectively.

In accordance with SEC regulations, the Company uses the 12-month average price calculated as the unweighted arithmetic average of the spot price on the first day of each month within the 12-month period prior to the end of the reporting period. The oil and natural gas prices used in computing the Company's reserves as of December 31, 2019, 2018, and 2017 were \$55.85, \$65.56, and \$51.34 per barrel of oil, respectively, \$2.58, \$3.10, and \$2.98 per MMBtu of natural gas, respectively, before consideration of price differentials.

**Note 10 – Supplemental Oil and Gas Disclosures (unaudited) (continued)**

The proved reserve estimates for the years ended December 31, 2019, 2018, and 2017 were prepared by Netherland, Sewell & Associates, Inc. (NSAI), our independent reserve engineers. All estimates of proved reserves are determined according to the rules prescribed by the SEC in existence at the time estimates were made. These rules require that the standard of “reasonable certainty” be applied to proved reserve estimates, which is defined as having a high degree of confidence that the quantities will be recovered. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as more technical and economic data becomes available, a positive or upward revision or no revision is much more likely than a negative or downward revision. Estimates are subject to revision based upon a number of factors, including many factors beyond the Company’s control such as reservoir performance, prices, economic conditions, and government restrictions. In addition, results of drilling, testing, and production subsequent to the date of an estimate may justify revision of that estimate.

Reserve estimates are often different from the quantities of oil, and natural gas, that are ultimately recovered. Estimating quantities of proved oil and natural gas reserves is a complex process that involves significant interpretations and assumptions and cannot be measured in an exact manner. It requires interpretations and judgment of available technical data, including the evaluation of available geological, geophysical, and engineering data. The accuracy of any reserve estimate is highly dependent on the quality of available data, the accuracy of the assumptions on which they are based upon, economic factors, such as oil and natural gas prices, production costs, severance and excise taxes, capital expenditures, workover and remedial costs, and the assumed effects of governmental regulation. In addition, due to the lack of substantial, if any, production data, there are greater uncertainties in estimating PUD reserves, proved developed non-producing reserves, and proved developed reserves that are early in their production life. As a result, the Company’s reserve estimates are inherently imprecise.

**Note 10 – Supplemental Oil and Gas Disclosures (unaudited) (continued)**

**Standardized Measure of Discounted Future Net Cash Flows** – The following table reflects the Company’s standardized measure of discounted future net cash flows relating from its proved oil, natural gas, and NGL reserves.

	Years Ended December 31,		
	2019	2018	2017
	(in millions)		
Future cash inflows	\$ 19,223	\$ 30,057	\$ 4,431
Future production costs	(8,030)	(10,890)	(1,280)
Future development costs	(2,628)	(3,945)	(605)
Future income tax expense <sup>(1)</sup>	-	-	-
Future net cash flows	8,565	15,222	2,546
Discount to present value at 10% annual rate	(4,664)	(8,894)	(1,476)
Standardized measure of discounted future net cash flows	\$ 3,901	\$ 6,328	\$ 1,070

<sup>(1)</sup> The Company has elected to be treated as a partnership for income tax purposes. Accordingly, federal taxable income and losses are reported on the income tax returns of the Company’s Member, and no provision for federal income taxes has been recorded on the accompanying consolidated financial statements. The Company is subject to margin/franchise taxes in Texas and reflected as “Future income tax expenses.”



**Note 10 – Supplemental Oil and Gas Disclosures (unaudited) (continued)**

The following table reflects the principal changes in the standardized measure of discounted future net cash flows attributable to the Company's proved reserves as follows:

	Years Ended December 31,		
	2019	2018	2017
	(in millions)		
Standardized measure of discounted future net cash flows at the beginning of the period	\$ 6,328	\$ 1,070	\$ 267
Sales of oil, natural gas, and NGLs, net of production costs	(504)	(262)	(90)
Purchases of reserves in place	-	-	(8)
Extensions and discoveries, net of future development costs	1,073	5,281	580
Sales of reserves in place	-	-	-
Changes in prices and production costs	(2,436)	110	84
Changes in estimated future development costs	1,172	(444)	(54)
Revisions of previous quantity estimates	(2,738)	(12)	146
Previously estimated development costs incurred	402	59	199
Accretion of discount	583	91	26
Net change in income taxes <sup>(1)</sup>	-	-	-
Net changes in timing of production and other	21	435	(80)
Standardized measure of discounted future net cash flows at the end of the period	<u>\$ 3,901</u>	<u>\$ 6,328</u>	<u>\$ 1,070</u>

<sup>(1)</sup> The Company has elected to be treated as a partnership for income tax purposes. Accordingly, federal taxable income and losses are reported on the income tax returns of the Company's Member, and no provision for federal income taxes has been recorded on the accompanying consolidated financial statements. The Company is subject to margin/franchise taxes in Texas and reflected as "Net change income taxes".

## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information is derived from the historical consolidated financial statements of WPX Energy, Inc. (“WPX”) and Felix Energy Holdings II, LLC (“Felix”), and has been adjusted to reflect the following:

- The acquisition of Felix for consideration of approximately \$2.5 billion (the “Unadjusted Purchase Price”), consisting of (i) an amount in cash equal to \$900 million (the “Unadjusted Cash Purchase Price”) and (ii) 152,963,671 unregistered, shares of the Company’s common stock (the “Unadjusted Equity Consideration”) determined by dividing \$1.6 billion by \$10.46 (the volume weighted-average per share price of the Company’s common stock on the New York Stock Exchange, as reported by Bloomberg, for the ten (10) consecutive trading days ending on the last full trading day preceding the date of the Purchase Agreement, rounded to the nearest tenth of a cent) (the “Acquisition”). The Unadjusted Purchase Price is subject to certain customary closing adjustments set forth in the Purchase Agreement. If certain closing adjustments are positive, then the Unadjusted Cash Purchase Price is adjusted and if certain closing adjustments are negative, the Unadjusted Equity Consideration is adjusted. The Unadjusted Equity Consideration is subject to certain holdbacks at Closing, including reduction by an amount of shares of the Company’s common stock equal to the Escrowed Shares (as defined in the Purchase Agreement) and the Adjustment Holdback Amount (as defined in the Purchase Agreement) divided by \$10.46 which will be held by an escrow agent in connection with the indemnification and adjustment obligations of the Seller under the Purchase Agreement.

Felix Investments Holdings II, LLC (“Felix Parent”) has a senior secured notes facility pursuant to that certain Note Purchase Agreement, dated as of August 9, 2017 (as amended, restated, amended and restated, supplemented and otherwise modified prior to the date hereof, the “Felix Parent Notes Facility”), and Felix has a reserve-based revolving credit facility pursuant to that certain Credit Agreement dated as of July 1, 2016 (as amended, restated, amended and restated, supplemented and otherwise modified prior to the date hereof, the “Felix Revolving Credit Facility” and together with the Felix Parent Notes Facility, the “Felix Debt Facilities”). The Felix Parent Notes Facility is secured by a lien on the equity of Felix and certain of Felix’s assets. As a condition to and simultaneous with the closing of the Acquisition, all remaining amounts outstanding under the Felix Debt Facilities are to be repaid in order to cause the release of such liens and terminate the facilities. Any amounts outstanding under the Felix Debt Facilities that are repaid from the Unadjusted Cash Purchase Price in connection with and simultaneous with the closing of the Acquisition will result in a reduction in the Unadjusted Cash Purchase Price received by Felix Parent. Furthermore, in connection with entering into the Purchase Agreement, Felix Parent received commitments from certain of its affiliates to finance the repayment of any amounts outstanding under the Felix Debt Facilities to the extent such amounts outstanding exceed the Unadjusted Cash Purchase Price subject to certain adjustments.

- Adjustments to Felix’s historical information to remove the effect of Felix’s midstream and water assets and operations and reflect the intercompany activity with those operations previously eliminated. In connection with the Acquisition, Felix has represented to us that it will either (i) distribute these assets to Felix Parent, or (ii) dispose of such assets in a third party sale. We refer to either the contribution or sale of such assets herein as the “Felix Dispositions.”
- Impact of offering by WPX of \$900 million aggregate principal amount of senior notes and, if necessary, borrowings under our revolving credit facility (collectively, the “Financing Transactions”), the proceeds of which will be used to fund the Acquisition and related transaction costs. At the time of the Acquisition closing, the Company may elect to use cash on hand rather than borrowings under the Credit Facility to fund such costs.

Certain of Felix’s historical amounts have been reclassified to conform to the financial statement presentation of WPX. The unaudited pro forma condensed combined balance sheet as of December 31, 2019 gives effect to the Acquisition, the Felix Dispositions and the Financing Transactions as if they had occurred on December 31, 2019. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2019 both give effect to the Acquisition, Felix Dispositions and Financing Transactions as if they had occurred on January 1, 2019.

The unaudited pro forma condensed combined financial statements are presented for illustrative purposes only to reflect the Acquisition, Felix Dispositions and related Financing Transactions and do not represent what our results of operations or financial position would actually have been had the transactions occurred on the dates noted above, or project our results of operations or financial position for any future periods. The unaudited pro forma condensed combined financial statements are intended to provide information about the continuing impact of the Acquisition, the Felix Dispositions and the Financing Transactions as if they had been consummated earlier. The pro forma adjustments are based on available information and certain assumptions that management believes are factually supportable and are expected to have a continuing impact on our results of operations. In the opinion of management, all adjustments necessary to present fairly the unaudited pro forma condensed combined financial statements have been made.

The Acquisition will be accounted for using the acquisition method of accounting for business combinations. The allocation of the preliminary estimated purchase price is based upon management’s estimates of and assumptions related to the fair value of assets to be acquired and liabilities to be assumed as of December 31, 2019 using currently available information. Due to the fact that the unaudited pro forma combined financial information has been prepared based on these preliminary estimates, the final purchase price allocation and the resulting effect on financial position and results of operations may materially differ from the pro forma amounts included herein. The Company expects to finalize its allocation of the purchase consideration as soon as practicable after completion of the Acquisition but is not required to finalize for one year from the closing date of the Acquisition.

The following unaudited pro forma condensed combined financial information should be read in conjunction with WPX’s and Felix’s consolidated financial statements and related notes. WPX financial statements and notes are included in WPX’s Annual Report on Form 10-K for the year ended December 31, 2019. Felix’s consolidated financial statements and notes are included elsewhere in this filing.

**WPX Energy, Inc.**  
**Pro Forma Condensed Combined Balance Sheet**  
**As of December 31, 2019**  
**(Unaudited)**

	<b>WPX Energy Inc. As Reported</b>	<b>Felix As Reported</b>	<b>Pro Forma Felix Dispositions</b>	<b>Pro Forma Felix-Post Dispositions</b>	<b>Pro Forma Acquisition Adjustments</b>	<b>Pro Forma Financing Adjustments</b>	<b>WPX Pro Forma Combined</b>
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(In millions)

**Current assets:**

Cash and cash equivalents	\$ 60	\$ 9	\$ —	\$ 9	\$ (900)(a)	\$ 900(f)	\$ 69
						(44)(h)	
						44(i)	
Accounts receivable, net of allowance	450	83	(3)	80	—	—	530
Derivative assets	57	—	—	—	—	—	57
Inventories	41	3	(1)	2	—	—	43
Other	39	3	—	3	—	—	42
Total current assets	647	98	(4)	94	(900)	900	741
Investments	48	—	—	—	—	—	48

**Properties and equipment**

(successful efforts method of accounting)	11,244	2,372	(226)	2,146	143(a)	—	13,215
					(318)(b)	—	

**Less – accumulated depreciation, depletion and amortization**

	(3,654)	(342)	24	(318)	318(b)	—	(3,654)
Properties and equipment, net	7,590	2,030	(202)	1,828	143	—	9,561
Derivative assets	10	—	—	—	—	—	10
Other noncurrent assets	118	2	—	2	—	—	120
Total assets	<u>\$ 8,413</u>	<u>\$ 2,130</u>	<u>\$ (206)</u>	<u>\$ 1,924</u>	<u>\$ (757)</u>	<u>\$ 900</u>	<u>\$ 10,480</u>

**Liabilities and Equity**

**Current liabilities:**

Accounts payable	\$ 556	\$ 159	\$ (7)	\$ 152	\$ —	\$ —	\$ 708
Accrued and other current liabilities	251	15	—	15	—	—	266
Derivative liabilities	91	15	—	15	—	—	106
Total current liabilities	898	189	(7)	182	—	—	1,080
Deferred income taxes	290	—	—	—	—	(7)(g)	283
Long-term debt	2,202	949	(93)	856	(856)(c)	900(e)	3,132
						(14)(h)	
						44(i)	

**Derivative liabilities**

	—	—	—	—	—	—	—
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**Other noncurrent liabilities**

	508	5	(2)	3	—	—	511
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**Equity:**

**Stockholders' equity:**

Preferred stock	—	—	—	—	—	—	—
Common stock	4	—	—	—	2(d)	—	6
Additional paid-in-capital	7,692	—	—	—	980(d)	—	8,672
Accumulated deficit	(3,181)	—	—	—	—	(23)(g)	(3,204)
Member's equity	—	987	(104)	883	(883)(e)	—	—
Total stockholders' equity	4,515	983	(104)	883	99	(23)	5,474
Total liabilities and equity	<u>\$ 8,413</u>	<u>\$ 2,130</u>	<u>\$ (206)</u>	<u>\$ 1,924</u>	<u>\$ (757)</u>	<u>\$ 900</u>	<u>\$ 10,480</u>

**WPX Energy, Inc.**  
**Pro Forma Condensed Combined Statement of Operations**  
**(Unaudited)**

**For the Year Ended December 31, 2019**

	<b>WPX Energy Inc. As Reported</b>	<b>Felix As Reported</b>	<b>Pro Forma Felix Dispositions</b>	<b>Pro Forma Felix-Post Dispositions</b>	<b>Pro Forma Acquisition Adjustments</b>	<b>Pro Forma Financing Adjustments</b>	<b>WPX Pro Forma Combined</b>
<b>(In millions)</b>							
<b>Revenues:</b>							
Product revenues:							
Oil sales	\$ 2,050	\$ 659	\$ (3)	\$ 656	\$ —	\$ —	\$ 2,706
Natural gas sales	75	11	—	11	—	—	86
Natural gas liquid sales	122	38	—	38	—	—	160
Total product revenues	2,247	708	(3)	705	—	—	2,952
Net gain (loss) on derivatives	(153)	(16)	—	(16)	—	—	(169)
Commodity management	194	—	—	—	—	—	194
Other	4	13	(13)	—	—	—	4
Total revenues	2,292	705	(16)	689	—	—	2,981
<b>Costs and expenses:</b>							
Depreciation, depletion and amortization	928	215	(16)	199	(39)(j)	—	1,088
Lease and facility operating	374	112	4	116	—	—	490
Gathering, processing and transportation	183	53	18	71	—	—	254
Taxes other than income	178	45	(1)	44	—	—	222
Exploration	95	19	—	19	—	—	114
General and administrative	206	24	(5)	19	—	—	225
Commodity management	163	—	—	—	—	—	163
Acquisition Costs	3	—	—	—	(3)(k)	—	—
Other—net	18	—	—	—	—	—	18
Total costs and expenses	2,148	468	—	468	(42)	—	2,574
Operating income (loss)	144	237	(16)	221	42	—	407
Interest expense	(159)	(34)	5	(29)	3(k)	(44)(m) 29(n)	(200)
Loss and extinguishment of debt	(47)	—	—	—	—	—	(47)
Gain on equity method investment transactions	380	—	—	—	—	—	380
Equity Earnings	9	—	—	—	—	—	9
Investment income and other	1	1	—	1	—	—	2
Income (loss) from continuing operations before income taxes	328	204	(11)	193	45	(15)	551
Provision (benefit) for income taxes	70	—	—	—	55(o)	(3)(o)	122
Income (loss) from continuing operations	258	204	(11)	193	(10)	(12)	429
<b>Basic earnings (loss) per common share:</b>							
Income (loss) from continuing operations	\$ 0.62						\$ 0.75
Weighted-average shares (millions)	420.4				153.0(l)		573.4
<b>Diluted earnings (loss) per common share:</b>							
Income (loss) from continuing operations	0.61						\$ 0.75
Weighted-average shares (millions)	\$ 422.0				153.0(l)		575.0

**WPX Energy, Inc.**  
**Notes to Pro Forma Condensed Combined Financial Statements**  
**(Unaudited)**

**Note 1. Unaudited Pro Forma Condensed Combined Balance Sheet**

*Felix Dispositions*

In connection with the Acquisition, Felix has represented to the Company that it will either (i) distribute its crude midstream business and water business to Felix Parent in connection with the Acquisition, or (ii) dispose of such assets in a third party sale. The crude midstream business was sold to a third party in February 2020. The water business was distributed prior to closing the Acquisition. We refer to either the distribution or sale of such assets herein as the “Felix Dispositions.” The pro forma balance sheet as of December 31, 2019 assumes the sale or distribution of these assets and certain related liabilities. In either case, WPX would acquire Felix exclusive of these assets, however, contracts utilizing the services of these businesses will remain in place.

*Acquisition Adjustments*

The Acquisition will be accounted for using the acquisition method of accounting for business combinations. The allocation of the preliminary estimated purchase price is based upon management’s estimates of and assumptions related to the fair value of assets to be acquired and liabilities to be assumed as of December 31, 2019 using currently available information. Due to the fact that the unaudited pro forma combined financial information has been prepared based on these preliminary estimates, the final purchase price allocation and the resulting effect on financial position and results of operations may materially differ from the pro forma amounts included herein. The Company expects to finalize its allocation of the purchase consideration as soon as practicable after completion of the Acquisition but is not required to finalize for one year from the closing date of the Acquisition. For income tax purposes, the Acquisition will be treated as an asset purchase such that the tax bases in the assets and liabilities will generally reflect the allocated fair value at closing. Therefore, we do not anticipate a material difference in the initial financial and tax bases of the assets and liabilities and have not reflected any deferred income taxes related to the Acquisition.

The preliminary purchase price allocation is subject to change due to several factors, including but not limited to:

- changes in the estimated number of shares due to closing adjustments and the estimated fair value of the shares of WPX common stock to be transferred to Felix Parent, based on WPX’s share price at the date of closing;
- final working capital and other post-closing adjustments; and
- changes in the estimated fair value of Felix’s assets acquired and liabilities assumed as of the date of the transaction, which could result from changes in future oil and gas commodity prices, reserve estimates, interest rates, and other factors.

The preliminary consideration to be transferred and fair value of assets acquired and liabilities assumed are as follows:

<b>Allocation</b>	<b>Preliminary Purchase Price (Millions)</b>
<b>Consideration:</b>	
Cash	\$ 900
Fair value of WPX common stock to be issued (1)	982
Total consideration	<u>\$ 1,882</u>
<b>Fair value of liabilities assumed:</b>	
Accounts payable	\$ 152
Accrued liabilities	15
Derivative liabilities, current	15
Asset retirement obligation	3
Total liabilities assumed as of December 31, 2019	<u>\$ 185</u>
<b>Fair value of assets acquired:</b>	
Cash and cash equivalents	9
Accounts receivable, net	80
Inventories	2
Other current assets	3
Properties and equipment, net	1,971
Other noncurrent assets	2
Total assets acquired as of December 31, 2019	<u>\$ 2,067</u>

- (1) Based on 153 million shares (less 1.8 million shares related to estimated closing adjustments as of December 31, 2019) of WPX common stock at \$6.50 per share (the closing price of our common stock on the NYSE on March 6, 2020).

Based on the closing stock price on March 6, 2020, the preliminary value of WPX's equity consideration to be transferred was approximately \$982 million. The final value of WPX consideration will be determined based on the actual number of WPX shares issued and the adjusted market price of WPX's common stock on the closing date of the Acquisition. A ten percent increase or decrease in the closing price of WPX's common stock, as compared to March 6, 2020 closing price of \$6.50, would increase or decrease the purchase price by approximately \$98 million, assuming all other factors are held constant.

The following adjustments have been made to the accompanying unaudited pro forma combined balance sheet as of December 31, 2019 to reflect the acquisition adjustments related to the Acquisition:

- (a) The allocation of the estimated fair value of consideration transferred of \$900 million of cash and \$982 million of common stock (based on the closing price of WPX's common stock as of March 6, 2020) to the estimated fair value of the assets acquired and liabilities assumed resulted in the following purchase price allocation adjustments:
  - \$900 million in cash consideration related to the Acquisition. Any amounts used to pay off the outstanding Felix Debt Facilities are considered part of the cash consideration;
  - \$143 million increase in Felix's book basis of property, plant and equipment to reflect them at fair value;
- (b) Reflects the elimination of Felix's historical accumulated depreciation, depletion and amortization ("DD&A") balances against gross properties and equipment.
- (c) Represents the portion of the cash consideration used for repayment of the \$856 million outstanding under Felix's revolving credit facility as of December 31, 2019. The repayment of the Felix Parent Notes Facility is not reflected as an adjustment to the accompanying pro forma combined balance sheet because that debt is not represented on Felix's balance sheet.
- (d) Reflects the estimated increase in WPX common stock and additional paid-in capital resulting from the issuance of WPX shares to Felix Parent to effect the transaction.
- (e) Reflects the elimination of Felix's historical equity balances in accordance with the acquisition method of accounting.

#### *Financing Adjustments*

The following adjustments have been made to the accompanying unaudited pro forma combined balance sheet to reflect the Financing Transactions:

- (f) Represents \$900 million in cash received through \$900 million of senior notes. The cash received is before fees as described in (h) below and potential discounts.
- (g) Reflects the expense of approximately \$30 million of advisory fees, bridge financing commitments and other fees associated with the Acquisition; offset by the corresponding tax impact of \$7 million.
- (h) Reflects \$44 million for the following estimated fees:
  - \$14 million comprised of debt issuance costs for underwriting, banking, legal and accounting fees associated with the debt offering; and
  - \$30 million of advisory fees, bridge financing commitments and other fees noted in (g) above associated with the Acquisition.
- (i) Represents \$44 million of borrowings on our revolving credit facility to complete the Acquisition based on cash and cash equivalents as of December 31, 2019. Borrowings under our revolving credit facility will be decreased or increased if we have more or less cash and cash equivalents at the time of closing.

## **Note 2. Unaudited Pro Forma Condensed Combined Statements of Operations**

### *Felix Disposition*

The amounts presented are primarily adjustments necessary to reflect the removal of the results of operations of Felix's midstream business and water business from Felix's consolidated historical financial statements. Additionally, lease and facility operating expenses and gathering, processing and transportation expenses were adjusted to reflect intercompany contracts with the water and midstream businesses, respectively, that were previously eliminated.

### *Acquisition Adjustments*

The following adjustments have been made to the accompanying unaudited pro forma combined statement of operations to reflect the acquisition transactions related to the Acquisition:

- (j) Reflects adjustment to depreciation, depletion and amortization expense resulting from the change in the basis of property, plant and equipment acquired.
- (k) Reflects the elimination of \$3 million of acquisition costs associated with the Acquisition and \$3 million of bridge financing commitment fees associated with the Acquisition.
- (l) Reflects 153 million shares of WPX common stock, before closing adjustments, issued to Felix Parent as a portion of the consideration for the Acquisition including escrowed shares.
- (o) Represents an estimated tax impact of pretax pro forma adjustments and application of an estimated effective tax rate to Felix's pro forma income before taxes. Felix is treated as a partnership for income tax purposes. Accordingly, the income deductions, expenses and credits of Felix are reported on the tax returns of Felix's members.

### *Financing Adjustments*

The following adjustments have been made to the accompanying unaudited pro forma combined statements of operations to reflect the financing transactions related to the Acquisition:

- (m) Reflects an assumed weighted average interest rate of 4.523 percent in respect of an aggregate of \$900 million of senior notes issued as part of the Financing Transactions and \$44 million of borrowings on our revolving credit facility. Actual interest expense may be higher or lower depending on fluctuations in interest rates and other market conditions. Also included are estimated amortization of debt issuance costs related to the notes offerings. Such costs are amortized over the terms of the associated debt.
- (n) Reflects the elimination of Felix remaining interest expense assuming no outstanding debt for the reporting periods per the terms of the Purchase Agreement.
- (o) Represents an estimated tax impact of pretax pro forma adjustments.

March 3, 2020

Mr. Ben Jackson  
Felix Energy Holdings II, LLC  
1530 16<sup>th</sup> Street, Suite 500  
Denver, Colorado 80202

Dear Mr. Jackson:

In accordance with your request, we have estimated the proved reserves and future revenue, as of December 31, 2019, to the Felix Energy Holdings II, LLC (Felix) interest in certain oil and gas properties located in Texas. We completed our evaluation on or about January 20, 2020. It is our understanding that the proved reserves estimated in this report constitute all of the proved reserves owned by Felix. The estimates in this report have been prepared in accordance with the definitions and regulations of the U.S. Securities and Exchange Commission (SEC) and conform to the FASB Accounting Standards Codification Topic 932, *Extractive Activities—Oil and Gas, except that future income taxes are excluded for all properties and, as requested, per-well overhead expenses are excluded for the operated properties*. Definitions are presented immediately following this letter. This report has been prepared for Felix's use in filing with the SEC; in our opinion the assumptions, data, methods, and procedures used in the preparation of this report are appropriate for such purpose.

We estimate the net reserves and future net revenue to the Felix interest in these properties, as of December 31, 2019, to be:

Category	Net Reserves			Future Net Revenue (M\$)	
	Oil (MBBL)	NGL (MBBL)	Gas (MMCF)	Total	Present Worth at 10%
Proved Developed Producing	84,561.1	21,221.1	98,028.3	2,592,269.1	1,606,840.2
Proved Developed Non-Producing	9,675.9	1,917.7	8,815.2	245,928.3	153,464.8
Proved Undeveloped	248,209.6	49,687.8	228,546.5	5,726,585.9	2,140,438.3
<b>Total Proved</b>	<b>342,446.6</b>	<b>72,826.6</b>	<b>335,390.0</b>	<b>8,564,783.1</b>	<b>3,900,744.4</b>

*Totals may not add because of rounding.*

The oil volumes shown include crude oil and condensate. Oil and natural gas liquids (NGL) volumes are expressed in thousands of barrels (MBBL); a barrel is equivalent to 42 United States gallons. Gas volumes are expressed in millions of cubic feet (MMCF) at standard temperature and pressure bases.

Reserves categorization conveys the relative degree of certainty; reserves subcategorization is based on development and production status. As requested, probable and possible reserves that exist for these properties have not been included. The estimates of reserves and future revenue included herein have not been adjusted for risk. This report does not include any value that could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated.

Gross revenue is Felix's share of the gross (100 percent) revenue from the properties prior to any deductions. Future net revenue is after deductions for Felix's share of production taxes, ad valorem taxes, capital costs, and operating expenses but before consideration of any income taxes. The future net revenue has been discounted at an annual rate of 10 percent to determine its present worth, which is shown to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.



Prices used in this report are based on the 12-month unweighted arithmetic average of the first-day-of-the-month price for each month in the period January through December 2019. For oil and NGL volumes, the average West Texas Intermediate spot price of \$55.85 per barrel is adjusted for quality, transportation fees, and market differentials. For gas volumes, the average Henry Hub spot price of \$2.578 per MMBTU is adjusted for energy content, transportation fees, and market differentials. All prices are held constant throughout the lives of the properties. The average adjusted product prices weighted by production over the remaining lives of the properties are \$52.20 per barrel of oil, \$16.77 per barrel of NGL, and \$0.370 per MCF of gas.

Operating costs used in this report are based on operating expense records of Felix. For the nonoperated properties, these costs include the per-well overhead expenses allowed under joint operating agreements along with estimates of costs to be incurred at and below the district and field levels. As requested, operating costs for the operated properties include only direct lease- and field-level costs. Operating costs have been divided into per-well costs and per-unit-of-production costs. For all properties, headquarters general and administrative overhead expenses of Felix are not included. Operating costs are not escalated for inflation.

Capital costs used in this report were provided by Felix and are based on authorizations for expenditure and actual costs from recent activity. Capital costs are included as required for new development wells and production equipment. Based on our understanding of future development plans, a review of the records provided to us, and our knowledge of similar properties, we regard these estimated capital costs to be reasonable. Capital costs are not escalated for inflation. As requested, our estimates do not include any salvage value for the lease and well equipment or the cost of abandoning the properties.

For the purposes of this report, we did not perform any field inspection of the properties, nor did we examine the mechanical operation or condition of the wells and facilities. We have not investigated possible environmental liability related to the properties; therefore, our estimates do not include any costs due to such possible liability.

We have made no investigation of potential volume and value imbalances resulting from overdelivery or underdelivery to the Felix interest. Therefore, our estimates of reserves and future revenue do not include adjustments for the settlement of any such imbalances; our projections are based on Felix receiving its net revenue interest share of estimated future gross production. Additionally, we have made no specific investigation of any firm transportation contracts that may be in place for these properties; our estimates of future revenue include the effects of such contracts only to the extent that the associated fees are accounted for in the historical field- and lease-level accounting statements.

The reserves shown in this report are estimates only and should not be construed as exact quantities. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be economically producible; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves. Estimates of reserves may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance. In addition to the primary economic assumptions discussed herein, our estimates are based on certain assumptions including, but not limited to, that the properties will be developed consistent with current development plans as provided to us by Felix, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the interest owner to recover the reserves, and that our projections of future production will prove consistent with actual performance. If the reserves are recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the sales rates, prices received for the reserves, and costs incurred in recovering such reserves may vary from assumptions made while preparing this report.

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For the purposes of this report, we used technical and economic data including, but not limited to, well logs, geologic maps, seismic data, well test data, production data, historical price and cost information, and property ownership interests. The reserves in this report have been estimated using deterministic methods; these estimates have been prepared in accordance with the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers (SPE Standards). We used standard engineering and geoscience methods, or a combination of methods, including performance analysis, volumetric analysis, and analogy, that we considered to be appropriate and necessary to categorize and estimate reserves in accordance with SEC definitions and regulations. A substantial portion of these reserves are for undeveloped locations; such reserves are based on estimates of reservoir volumes and recovery efficiencies along with analogy to properties with similar geologic and reservoir characteristics. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data; therefore, our conclusions necessarily represent only informed professional judgment.

The data used in our estimates were obtained from Felix, public data sources, and the nonconfidential files of Netherland, Sewell & Associates, Inc. (NSAI) and were accepted as accurate. Supporting work data are on file in our office. We have not examined the titles to the properties or independently confirmed the actual degree or type of interest owned. The technical persons primarily responsible for preparing the estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the SPE Standards. Connor B. Riseden, a Licensed Professional Engineer in the State of Texas, has been practicing consulting petroleum engineering at NSAI since 2006 and has over 4 years of prior industry experience. Mike K. Norton, a Licensed Professional Geoscientist in the State of Texas, has been practicing consulting petroleum geoscience at NSAI since 1989 and has over 10 years of prior industry experience. We are independent petroleum engineers, geologists, geophysicists, and petrophysicists; we do not own an interest in these properties nor are we employed on a contingent basis.

Sincerely,

**NETHERLAND, SEWELL & ASSOCIATES, INC.**  
Texas Registered Engineering Firm F-2699

By: /s/ C.H. (Scott) Rees III  
C.H. (Scott) Rees III, P.E.  
Chairman and Chief Executive Officer

By: /s/ Connor B. Riseden  
Connor B. Riseden, P.E. 100566  
Vice President

By: /s/ Mike K. Norton  
Mike K. Norton, P.G. 441  
Senior Vice President

Date Signed: March 3, 2020

Date Signed: March 3, 2020

CBR:SAO

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## DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

The following definitions are set forth in U.S. Securities and Exchange Commission (SEC) Regulation S-X Section 210.4-10(a). Also included is supplemental information from (1) the 2018 Petroleum Resources Management System approved by the Society of Petroleum Engineers, (2) the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas, and (3) the SEC's Compliance and Disclosure Interpretations.

(1) *Acquisition of properties.* Costs incurred to purchase, lease or otherwise acquire a property, including costs of lease bonuses and options to purchase or lease properties, the portion of costs applicable to minerals when land including mineral rights is purchased in fee, brokers' fees, recording fees, legal costs, and other costs incurred in acquiring properties.

(2) *Analogous reservoir.* Analogous reservoirs, as used in resources assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, an "analogous reservoir" refers to a reservoir that shares the following characteristics with the reservoir of interest:

- (i) Same geological formation (but not necessarily in pressure communication with the reservoir of interest);
- (ii) Same environment of deposition;
- (iii) Similar geological structure; and
- (iv) Same drive mechanism.

*Instruction to paragraph (a)(2):* Reservoir properties must, in the aggregate, be no more favorable in the analog than in the reservoir of interest.

(3) *Bitumen.* Bitumen, sometimes referred to as natural bitumen, is petroleum in a solid or semi-solid state in natural deposits with a viscosity greater than 10,000 centipoise measured at original temperature in the deposit and atmospheric pressure, on a gas free basis. In its natural state it usually contains sulfur, metals, and other non-hydrocarbons.

(4) *Condensate.* Condensate is a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

(5) *Deterministic estimate.* The method of estimating reserves or resources is called deterministic when a single value for each parameter (from the geoscience, engineering, or economic data) in the reserves calculation is used in the reserves estimation procedure.

(6) *Developed oil and gas reserves.* Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

- (i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and
- (ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

*Supplemental definitions from the 2018 Petroleum Resources Management System:*

*Developed Producing Reserves – Expected quantities to be recovered from completion intervals that are open and producing at the effective date of the estimate. Improved recovery Reserves are considered producing only after the improved recovery project is in operation.*

*Developed Non-Producing Reserves – Shut-in and behind-pipe Reserves. Shut-in Reserves are expected to be recovered from (1) completion intervals that are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells that will require additional completion work or future re-completion before start of production with minor cost to access these reserves. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.*

(7) *Development costs.* Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (i) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines, and power lines, to the extent necessary in developing the proved reserves.
- (ii) Drill and equip development wells, development-type stratigraphic test wells, and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment, and the wellhead assembly.



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(iii) Acquire, construct, and install production facilities such as lease flow lines, separators, treaters, heaters, manifolds, measuring devices, and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems.

(iv) Provide improved recovery systems.

(8) *Development project*. A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field, or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.

(9) *Development well*. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

(10) *Economically producible*. The term economically producible, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. The value of the products that generate revenue shall be determined at the terminal point of oil and gas producing activities as defined in paragraph (a)(16) of this section.

(11) *Estimated ultimate recovery (EUR)*. Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.

(12) *Exploration costs*. Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as prospecting costs) and after acquiring the property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies. Collectively, these are sometimes referred to as geological and geophysical or "G&G" costs.
- (ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.
- (iii) Dry hole contributions and bottom hole contributions.
- (iv) Costs of drilling and equipping exploratory wells.
- (v) Costs of drilling exploratory-type stratigraphic test wells.

(13) *Exploratory well*. An exploratory well is a well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well, or a stratigraphic test well as those items are defined in this section.

(14) *Extension well*. An extension well is a well drilled to extend the limits of a known reservoir.

(15) *Field*. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms "structural feature" and "stratigraphic condition" are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

(16) *Oil and gas producing activities*.

- (i) Oil and gas producing activities include:
  - (A) The search for crude oil, including condensate and natural gas liquids, or natural gas ("oil and gas") in their natural states and original locations;
  - (B) The acquisition of property rights or properties for the purpose of further exploration or for the purpose of removing the oil or gas from such properties;
  - (C) The construction, drilling, and production activities necessary to retrieve oil and gas from their natural reservoirs, including the acquisition, construction, installation, and maintenance of field gathering and storage systems, such as:
    - (1) Lifting the oil and gas to the surface; and
    - (2) Gathering, treating, and field processing (as in the case of processing gas to extract liquid hydrocarbons); and

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- (D) Extraction of saleable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

*Instruction 1 to paragraph (a)(16)(i):* The oil and gas production function shall be regarded as ending at a "terminal point", which is the outlet valve on the lease or field storage tank. If unusual physical or operational circumstances exist, it may be appropriate to regard the terminal point for the production function as:

- a. The first point at which oil, gas, or gas liquids, natural or synthetic, are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal; and
- b. In the case of natural resources that are intended to be upgraded into synthetic oil or gas, if those natural resources are delivered to a purchaser prior to upgrading, the first point at which the natural resources are delivered to a main pipeline, a common carrier, a refinery, a marine terminal, or a facility which upgrades such natural resources into synthetic oil or gas.

*Instruction 2 to paragraph (a)(16)(i):* For purposes of this paragraph (a)(16), the term *saleable hydrocarbons* means hydrocarbons that are saleable in the state in which the hydrocarbons are delivered.

(ii) Oil and gas producing activities do not include:

- (A) Transporting, refining, or marketing oil and gas;
- (B) Processing of produced oil, gas, or natural resources that can be upgraded into synthetic oil or gas by a registrant that does not have the legal right to produce or a revenue interest in such production;
- (C) Activities relating to the production of natural resources other than oil, gas, or natural resources from which synthetic oil and gas can be extracted; or
- (D) Production of geothermal steam.

(17) *Possible reserves.* Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.

- (i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.
- (ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain. Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.
- (iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.
- (iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.
- (v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.
- (vi) Pursuant to paragraph (a)(22)(iii) of this section, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.

(18) *Probable reserves.* Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

- (i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.

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- (ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.
- (iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.
- (iv) See also guidelines in paragraphs (a)(17)(iv) and (a)(17)(vi) of this section.

(19) *Probabilistic estimate.* The method of estimation of reserves or resources is called probabilistic when the full range of values that could reasonably occur for each unknown parameter (from the geoscience and engineering data) is used to generate a full range of possible outcomes and their associated probabilities of occurrence.

(20) *Production costs.*

- (i) Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. They become part of the cost of oil and gas produced. Examples of production costs (sometimes called lifting costs) are:
  - (A) Costs of labor to operate the wells and related equipment and facilities.
  - (B) Repairs and maintenance.
  - (C) Materials, supplies, and fuel consumed and supplies utilized in operating the wells and related equipment and facilities.
  - (D) Property taxes and insurance applicable to proved properties and wells and related equipment and facilities.
  - (E) Severance taxes.
- (ii) Some support equipment or facilities may serve two or more oil and gas producing activities and may also serve transportation, refining, and marketing activities. To the extent that the support equipment and facilities are used in oil and gas producing activities, their depreciation and applicable operating costs become exploration, development or production costs, as appropriate. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs are not production costs but also become part of the cost of oil and gas produced along with production (lifting) costs identified above.

(21) *Proved area.* The part of a property to which proved reserves have been specifically attributed.

(22) *Proved oil and gas reserves.* Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

- (i) The area of the reservoir considered as proved includes:
  - (A) The area identified by drilling and limited by fluid contacts, if any, and
  - (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.
- (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.
- (iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.
- (iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:
  - (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

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(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

- (v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

(23) *Proved properties.* Properties with proved reserves.

(24) *Reasonable certainty.* If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

(25) *Reliable technology.* Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

(26) *Reserves.* Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

*Note to paragraph (a)(26):* Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

*Excerpted from the FASB Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas:*

*932-235-50-30 A standardized measure of discounted future net cash flows relating to an entity's interests in both of the following shall be disclosed as of the end of the year:*

- a. Proved oil and gas reserves (see paragraphs 932-235-50-3 through 50-11B)*
- b. Oil and gas subject to purchase under long-term supply, purchase, or similar agreements and contracts in which the entity participates in the operation of the properties on which the oil or gas is located or otherwise serves as the producer of those reserves (see paragraph 932-235-50-7).*

*The standardized measure of discounted future net cash flows relating to those two types of interests in reserves may be combined for reporting purposes.*

*932-235-50-31 All of the following information shall be disclosed in the aggregate and for each geographic area for which reserve quantities are disclosed in accordance with paragraphs 932-235-50-3 through 50-11B:*

- a. Future cash inflows. These shall be computed by applying prices used in estimating the entity's proved oil and gas reserves to the year-end quantities of those reserves. Future price changes shall be considered only to the extent provided by contractual arrangements in existence at year-end.*
- b. Future development and production costs. These costs shall be computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. If estimated development expenditures are significant, they shall be presented separately from estimated production costs.*
- c. Future income tax expenses. These expenses shall be computed by applying the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, to the future pretax net cash flows relating to the entity's proved oil and gas reserves, less the tax basis of the properties involved. The future income tax expenses shall give effect to tax deductions and tax credits and allowances relating to the entity's proved oil and gas reserves.*
- d. Future net cash flows. These amounts are the result of subtracting future development and production costs and future income tax expenses from future cash inflows.*
- e. Discount. This amount shall be derived from using a discount rate of 10 percent a year to reflect the timing of the future net cash flows relating to proved oil and gas reserves.*
- f. Standardized measure of discounted future net cash flows. This amount is the future net cash flows less the computed discount.*



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- (27) *Reservoir*. A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.
- (28) *Resources*. Resources are quantities of oil and gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable, and another portion may be considered to be unrecoverable. Resources include both discovered and undiscovered accumulations.
- (29) *Service well*. A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.
- (30) *Stratigraphic test well*. A stratigraphic test well is a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intent of being completed for hydrocarbon production. The classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic tests are classified as "exploratory type" if not drilled in a known area or "development type" if drilled in a known area.
- (31) *Undeveloped oil and gas reserves*. Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.
- (i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
  - (ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

*From the SEC's Compliance and Disclosure Interpretations (October 26, 2009):*

*Although several types of projects — such as constructing offshore platforms and development in urban areas, remote locations or environmentally sensitive locations — by their nature customarily take a longer time to develop and therefore often do justify longer time periods, this determination must always take into consideration all of the facts and circumstances. No particular type of project per se justifies a longer time period, and any extension beyond five years should be the exception, and not the rule.*

*Factors that a company should consider in determining whether or not circumstances justify recognizing reserves even though development may extend past five years include, but are not limited to, the following:*

- *The company's level of ongoing significant development activities in the area to be developed (for example, drilling only the minimum number of wells necessary to maintain the lease generally would not constitute significant development activities);*
- *The company's historical record at completing development of comparable long-term projects;*
- *The amount of time in which the company has maintained the leases, or booked the reserves, without significant development activities;*
- *The extent to which the company has followed a previously adopted development plan (for example, if a company has changed its development plan several times without taking significant steps to implement any of those plans, recognizing proved undeveloped reserves typically would not be appropriate); and*
- *The extent to which delays in development are caused by external factors related to the physical operating environment (for example, restrictions on development on Federal lands, but not obtaining government permits), rather than by internal factors (for example, shifting resources to develop properties with higher priority).*

- (iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

- (32) *Unproved properties*. Properties with no proved reserves.